CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-3-2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 80**

General Instructions

(i) This question paper contains **34** questions. **All** questions are **compulsory**.

(ii) This question paper is divided into **two** parts — **Part A** and **Part B**.

(iii) **Part A** is **compulsory** for all candidates.

(iv) **Part B** has two options i.e. (1) Analysis of Financial Statements, and (2) Computerised Accounting. Candidates must attempt only **one** of the given options as per the subject opted in **Part B**.

(v) Questions no. **1** to **16** and **27** to **30** carry **1** mark each.

(vi) Questions no. **17** to **20**, **31** and **32** carry **3** marks each.

(vii) Questions no. **21**, **22** and **33** carry **4** marks each.

(viii) Questions no. **23** to **26** and **34** carry **6** marks each.

(ix) There is no overall choice. However, an internal choice has been provided in **7** questions of **one** mark, **2** questions of **three** marks, **1** question of **four** marks and **2** questions of **six** marks.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(i). A share of Rs. 10 issued at a premium of Rs. 2 per share on which Rs. 8 per share (including premium) have been called and Rs. 6 per share (including premium) is received, is forfeited. Share Capital Account will be debited by: [1 mark]

(A) Rs. 10

(B) Rs. 8

(C) Rs. 12

(D) Rs. 6

Correct Answer: (D) Rs. 6

Solution:

Concept:

- On forfeiture, Share Capital Account is debited with the called-up nominal capital, excluding securities premium.
- The amount received determines the credit to Share Forfeiture Account after excluding premium already received; it does not determine the debit to Share Capital Account.

Step 1: Separate premium from the total called The total called is Rs 8 per share, including the Rs 2 premium. Hence the nominal capital called is

$$\text{Called-up capital} = 8 - 2 = \text{Rs } 6.$$

The uncalled part of the Rs 10 face value is not reversed on forfeiture.

Step 2: Check the alternatives Rs 10 is the full face value, not the called-up capital. Rs 8 includes premium and Rs 12 is the full issue price. The Rs 6 received also includes premium: only Rs $6 - 2 = 4$ relates to capital received. This distinction prevents confusing the forfeiture credit with the capital debit.

Step 3: Conclusion Share Capital Account will be debited by $\boxed{\text{Rs } 6}$. Hence, the correct option is (D).

Quick Tip to Solve: Subtract the called premium from the total amount called before deciding the Share Capital debit.

OR

1(ii). A share of Rs. 100 on which Rs. 70 has been received is forfeited for non-payment of final call of Rs. 30. The minimum price at which this share can be re-issued is: [1 mark]

(A) Rs. 70

(B) Rs. 30

(C) Rs. 100

(D) Rs. 130

Correct Answer: (B) Rs. 30

Solution:

Concept:

- The discount allowed on reissue of a forfeited share cannot exceed the amount forfeited on that share.
- For reissue as fully paid, minimum reissue price equals face value less the available forfeited capital.

Step 1: Find the maximum permissible discount The share has face value Rs 100 and Rs 70 has already been received towards capital. On forfeiture, Rs 70 is available in Share Forfeiture Account for this share, so the reissue discount cannot exceed Rs 70.

Step 2: Calculate the minimum reissue price At the maximum permissible discount,

$$\text{Minimum reissue price} = 100 - 70 = \text{Rs } 30.$$

Prices of Rs 70, Rs 100 and Rs 130 are higher prices at which reissue may occur, but none is the minimum. The unpaid final call of Rs 30 is consistent with the amount still needed to restore the full capital.

Step 3: Conclusion The minimum reissue price is $\boxed{\text{Rs } 30}$ per share. Hence, the correct option is (B).

Quick Tip to Solve: Maximum reissue discount is the capital already forfeited; subtract it from the fully paid face value.

2. Assertion (A): Interest on partners' loan is debited to Profit and Loss Account.

Reason (R): Interest on partners' loan is a charge against profits.

On the basis of the above Assertion (A) and Reason (R), choose the correct option from the following:

[1 mark]

(A) Assertion (A) is correct and Reason (R) is wrong.

(B) Assertion (A) is wrong and Reason (R) is correct.

(C) Both Assertion (A) and Reason (R) are correct.

(D) Both Assertion (A) and Reason (R) are wrong.

Correct Answer: (C) Both Assertion (A) and Reason (R) are correct.

Solution:

Concept:

- Interest on a loan advanced by a partner is a business expense and a charge against profits.
- A charge is debited to Profit and Loss Account before calculating the profit available for appropriation among partners.

Step 1: Evaluate the Assertion Assertion (A) is correct. Interest on a partner's loan is debited to Profit and Loss Account because the partner has lent funds to the firm in the capacity of a creditor.

Step 2: Evaluate the Reason Reason (R) is correct. Loan interest is a charge against profits and is payable even when the firm has insufficient profits or incurs a loss. It is not treated like an appropriation such as interest on partners' capital.

Step 3: Connect the Reason to the Assertion Because loan interest is a charge, it reduces profit before appropriation; this explains the debit stated in the Assertion. Options (A), (B) and (D) wrongly classify at least one of the two statements as incorrect. The printed option (C) correctly states that both are correct.

Step 4: Conclusion Both the Assertion and the Reason are correct. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish a partner as lender from a partner as owner: loan interest goes to Profit and Loss Account.

3. Gopal, Krishna and Govind are partners sharing profits and losses in the ratio of 5:4:3. Krishna retired on 1st April, 2022. Gopal and Govind purchased her share of profit by giving her Rs. 1,20,000, Rs. 80,000 being paid by Gopal and Rs. 40,000 by Govind. The gaining ratio will be: [1 mark]

(A) 5:3

(B) 4:3

(C) 1:1

(D) 2:1

Correct Answer: (D) 2:1

Solution:

Concept:

- The gaining ratio measures the proportions in which continuing partners acquire the retiring partner's share.
- When a share is purchased for stated amounts on the same basis, the purchasers gain in the ratio of those amounts.

Step 1: Identify the share acquired Krishna's old share is 4 out of 12, or one-third. Gopal and Govind purchase that share by paying Rs 80,000 and Rs 40,000 respectively, out of the total Rs 1,20,000. Thus Gopal acquires twice the share acquired by Govind.

Step 2: Calculate and check the gaining ratio

$$\text{Gopal} : \text{Govind} = 80,000 : 40,000 = 2 : 1.$$

Their gains are respectively $\frac{4}{12} \times \frac{2}{3} = \frac{2}{9}$ and $\frac{4}{12} \times \frac{1}{3} = \frac{1}{9}$. The ratio 5:3 merely compares their old shares; 4:3 uses Krishna's old share and Govind's old share. Equal gains, 1:1, contradict the unequal purchase amounts.

Step 3: Conclusion The gaining ratio of Gopal and Govind is $\boxed{2:1}$. Hence, the correct option is (D).

Quick Tip to Solve: When the retiring share is purchased for specified amounts, simplify the continuing partners' purchase amounts.

4(i). Keshav and Karan were partners in a firm sharing profits equally. The capitalised value of average profits of the firm was Rs. 18,00,000. Assets of the firm were Rs. 20,00,000 (excluding goodwill) and Liabilities were Rs. 5,00,000. The value of goodwill of the firm by capitalisation of average profits method will be: [1 mark]

(A) Rs. 2,00,000

(B) Rs. 3,00,000

(C) Rs. 4,00,000

(D) Rs. 3,50,000

Correct Answer: (B) Rs. 3,00,000

Solution:

Concept:

- Under capitalisation of average profits, goodwill is the excess of capitalised business value over actual capital employed.
- Actual capital employed equals assets excluding goodwill minus outside liabilities.

Step 1: Calculate capital employed The assets excluding goodwill are Rs 20,00,000 and outside liabilities are Rs 5,00,000. Therefore,

$$\text{Capital employed} = 20,00,000 - 5,00,000 = \text{Rs } 15,00,000.$$

The equal profit-sharing ratio is not needed to value the goodwill of the whole firm.

Step 2: Deduct capital employed from capitalised value The capitalised value is already given, so there is no need to infer a normal rate of return.

$$\text{Goodwill} = 18,00,000 - 15,00,000 = \text{Rs } 3,00,000.$$

None of Rs 2,00,000, Rs 4,00,000 or Rs 3,50,000 equals this excess. Comparing capitalised value with gross assets would incorrectly ignore liabilities.

Step 3: Conclusion The goodwill of the firm is $\boxed{\text{Rs } 3,00,000}$. Hence, the correct option is (B).

Quick Tip to Solve: First find net assets; then subtract net assets from the capitalised value of average profits.

OR

4(ii). A and B were partners in a firm sharing profits and losses in the ratio of 3:2. On 1st April, 2021 the balances in their capital accounts were Rs. 1,50,000 and Rs. 2,00,000 respectively. The partnership deed provided that interest on partners capital will be allowed @ 10% per annum. During the year ended 31st March, 2022, the firm incurred a loss of Rs. 10,000. Interest on A's capital will be: [1 mark]

(A) Rs. 15,000

(B) Rs. 9,000

(C) Nil

(D) Rs. 6,000

Correct Answer: (C) Nil

Solution:

Concept:

- Interest on partners' capital is normally an appropriation of profit and is allowed only out of available profit.
- A deed specifying a rate does not by itself make interest on capital a charge payable regardless of profit or loss.

Step 1: Calculate the amount subject to profit availability The annual interest calculated at the stated rate on A's opening capital would be

$$1,50,000 \times \frac{10}{100} = \text{Rs } 15,000.$$

This is only the amount potentially allowable; the availability of profit must also be checked.

Step 2: Apply the loss condition The firm has incurred a loss of Rs 10,000. The deed does not state that capital interest is payable even in the event of loss, so no interest on capital is allowed. Rs 15,000 ignores the loss restriction. Rs 9,000 and Rs 6,000 incorrectly apply sharing proportions to an interest amount; the 3:2 ratio does not create profit available for appropriation.

Step 3: Conclusion Interest on A's capital is Nil. Hence, the correct option is (C).

Quick Tip to Solve: For interest on capital, check available profit before using the rate; a loss normally means no allowance.

5(i). _____ is the basis of relationship between the partners to run the partnership business.

[1 mark]

(A) Offer

(B) Agreement

(C) Understanding

(D) Acceptance

Correct Answer: (B) Agreement

Solution:

Concept:

- Partnership arises from an agreement between persons to share the profits of a business carried on by all or any of them acting for all.
- The agreement establishes the partners' mutual rights and duties; it may be oral or written.

Step 1: Identify what creates the partnership relationship The defining basis is the agreement among the partners to conduct the business and share its profits. A written record of this agreement is called a partnership deed, but a written document is not essential to the existence of the agreement itself.

Step 2: Distinguish the other choices An offer and its acceptance are elements through which an agreement may be formed; either word alone does not describe the completed basis of the partnership relationship. A general understanding is less precise than the recognised term agreement. Therefore, the blank must use the complete relationship-creating concept.

Step 3: Conclusion Agreement is the basis of the relationship between partners. Hence, the correct option is (B).

Quick Tip to Solve: Use the defining phrase: partnership arises from an agreement; a deed records that agreement in writing.

OR

5(ii). At the time of change in profit sharing ratio among existing partners, 'Reserves' are transferred to Partners' Capital Accounts in the following ratio:

[1 mark]

(A) Sacrificing ratio

(B) Gaining ratio

(C) Old profit sharing ratio

(D) New profit sharing ratio

Correct Answer: (C) Old profit sharing ratio

Solution:

Concept:

- Accumulated reserves represent profits earned before the date of a change in profit-sharing ratio.
- Past profits belong to the existing partners in their old profit-sharing ratio, irrespective of the ratio

agreed for future profits.

Step 1: Identify the period to which the reserves relate The reserves have accumulated while the old ratio was in force. Transferring them to partners' capital accounts distributes those earlier profits according to the partners' original entitlements.

Step 2: Choose the appropriate ratio The transfer therefore credits partners' capital accounts in the old profit-sharing ratio. The new ratio governs future profits. Sacrificing and gaining ratios measure changes in entitlement and are used for adjustments such as goodwill compensation; neither distributes the whole balance of pre-existing reserves correctly.

Step 3: Conclusion Reserves are transferred in the old profit-sharing ratio. Hence, the correct option is (C).

Quick Tip to Solve: Match the period: accumulated reserves are past profits, so distribute them using the old ratio.

6(i). Sunbeam Ltd. issued 20,000, 11% debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of 5%. The 'Loss on Issue of Debentures Account' will debited by: [1 mark]

(A) Rs. 3,00,000

(B) Rs. 2,00,000

(C) Rs. 1,00,000

(D) Rs. 22,00,000

Correct Answer: (C) Rs. 1,00,000

Solution:

Concept:

- Loss on issue of debentures comprises any discount on issue plus the premium payable on redemption.
- Premium received on issue is credited separately to Securities Premium Account; the coupon rate determines interest, not loss on issue.

Step 1: Calculate face value and redemption premium The total nominal value is

$$20,000 \times 100 = \text{Rs } 20,00,000.$$

The premium payable on redemption is

$$20,00,000 \times \frac{5}{100} = \text{Rs } 1,00,000.$$

There is no discount on issue because these debentures are issued above face value.

Step 2: Separate the issue premium from the loss The issue premium of $20,00,000 \times 10\% = \text{Rs } 2,00,000$ is a separate credit. The debit to Loss on Issue of Debentures is therefore only the redemption premium of Rs 1,00,000. Rs 3,00,000 incorrectly adds both premiums; Rs 2,00,000 is the issue premium; Rs 22,00,000 is the cash proceeds, not the loss.

Step 3: Conclusion Loss on Issue of Debentures Account will be debited by $\boxed{\text{Rs } 1,00,000}$. Hence, the correct option is (C).

Quick Tip to Solve: For an issue at premium, keep Securities Premium separate and debit the redemption premium as loss on issue.

OR

6(ii). Nargis Ltd. purchased assets of Rs. 8,00,000 and took over liabilities of Rs. 2,00,000 from Gauri Ltd. The payment was made by issue of 8% Debentures of Rs. 100 each at a premium of 20%. Number of debentures issued will be: [1 mark]

(A) 50,000

(B) 5,000

(C) 6,000

(D) 6,00,000

Correct Answer: (B) 5,000

Solution:

Concept:

- Purchase consideration equals the agreed value of assets taken over less the liabilities assumed.
- When debentures are issued at a premium, divide purchase consideration by the issue price, which is face value plus premium.

Step 1: Find the purchase consideration The amount due to Gauri Ltd. is the net value acquired:

$$\text{Purchase consideration} = 8,00,000 - 2,00,000 = \text{Rs } 6,00,000.$$

The liabilities reduce the amount payable to the vendor.

Step 2: Calculate the issue price and quantity Each Rs 100 debenture is issued at a premium of 20%, so its issue price is $100 + 20 = \text{Rs } 120$. Thus

$$\text{Number issued} = \frac{6,00,000}{120} = 5,000.$$

Option (C), 6,000, incorrectly uses face value alone. Option (D) is the consideration amount, not a number of debentures; (A) is ten times the required number. The 8% interest rate does not determine issue price.

Step 3: Conclusion Nargis Ltd. issues $5,000$ debentures. Hence, the correct option is (B).

Quick Tip to Solve: For a vendor settlement, subtract liabilities first, then divide by Rs 120, not the Rs 100 face value.

7(i). Mehak and Ravish were partners in a firm. On dissolution of the firm, the loan given by Mehak to the firm was Rs. 30,000, by Ravish was Rs. 15,000, and by Mrs. Ravish was Rs. 10,000. The first payment will be made for: [1 mark]

(A) Ravish's loan

(B) Mehak's loan

(C) Mrs. Ravish's loan

(D) Mehak's loan and Ravish's loan in the ratio of their loan amount

Correct Answer: (C) Mrs. Ravish's loan

Solution:

Concept:

- On dissolution, outside creditors are paid before advances or loans made by partners.
- A loan from a partner's relative is an outside liability when the relative is not a partner.

Step 1: Classify the three lenders Mehak and Ravish are partners, so their loans of Rs 30,000 and Rs 15,000 are partners' advances. Mrs. Ravish is not identified as a partner: her Rs 10,000 loan is therefore an outside liability, irrespective of her relationship to Ravish.

Step 2: Apply the order of payment The available assets are applied first towards outside liabilities, then partners' loans, and then partners' capitals. Therefore Mrs. Ravish's loan has priority over both partners' loans. Options (A) and (B) incorrectly give a partner priority over an outside lender. Option (D) concerns proportionate settlement of partners' loans at a later stage, not the first payment.

Step 3: Conclusion The first payment is for Mrs. Ravish's loan of Rs 10,000. Hence, the correct option is (C).

Quick Tip to Solve: Classify the lender by partnership status, not family relationship or the size of the loan.

OR

7(ii). Surbhi and Leena were partners in a firm sharing profits and losses in the ratio of 5:3. Ashi was admitted as a new partner for 1/4 share in the profits of the firm. Ashi acquired 3/5 of her share from Surbhi. From the following, how much share did Ashi acquire from Leena: [1 mark]

(A) 1/10

(B) 3/20

(C) 2/5

(D) 3/8

Correct Answer: (A) 1/10

Solution:

Concept:

- A new partner's total profit share equals the sum of the shares acquired from the existing partners.
- A fraction of the incoming partner's share must be multiplied by her total share to obtain a fraction

of the firm's profit.

Step 1: Find the share acquired from Surbhi Ashi receives $\frac{1}{4}$ of the firm's profits, of which $\frac{3}{5}$ comes from Surbhi. Hence Surbhi sacrifices

$$\frac{3}{5} \times \frac{1}{4} = \frac{3}{20}.$$

This is option (B), but it answers the question for Surbhi, not Leena.

Step 2: Find the remainder acquired from Leena The remaining fraction of Ashi's share is $1 - \frac{3}{5} = \frac{2}{5}$. Thus the share obtained from Leena is

$$\frac{2}{5} \times \frac{1}{4} = \frac{2}{20} = \frac{1}{10}.$$

Option (C) gives only the fraction of Ashi's share; it is not the share of total profits. Option (D), $\frac{3}{8}$, is Leena's original share under the $5 : 3$ ratio.

Step 3: Conclusion Ashi acquires $\frac{1}{10}$ of the firm's profits from Leena. Hence, the correct option is (A).

Quick Tip to Solve: After finding the remaining two-fifths, multiply it by Ashi's one-fourth share; do not stop at two-fifths.

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8. Sunbeam Limited issued 4,000, 6% Debentures of Rs. 100 each at Rs. 95 per debenture. 6% Debentures account will be credited by: [1 mark]

(A) Rs. 3,80,000

(B) Rs. 4,40,000

(C) Rs. 4,00,000

(D) Rs. 20,000

Correct Answer: (C) Rs. 4,00,000

Solution:

Concept:

- The Debentures Account is credited with the nominal or face value of the debentures issued.
- The difference between face value and a lower issue price is discount on issue; it does not reduce the debenture liability.

Step 1: Calculate the nominal liability There are 4,000 debentures with a face value of Rs 100 each. The amount credited to the 6% Debentures Account is therefore

$$4,000 \times 100 = \text{Rs } 4,00,000.$$

The interest rate describes the annual interest obligation and does not change this face value.

Step 2: Distinguish proceeds from discount Cash received is $4,000 \times 95 = \text{Rs } 3,80,000$, which explains option (A). Discount is $4,000 \times (100 - 95) = \text{Rs } 20,000$, explaining option (D). Together they equal the nominal liability. Option (B), Rs 4,40,000, has no basis in the stated issue terms.

Step 3: Conclusion The 6% Debentures Account is credited by Rs 4,00,000. Hence, the correct option

is (C).

Quick Tip to Solve: For the Debentures Account, multiply the quantity by face value; use issue price only for the proceeds.

9. Vikram and Sumit were partners in a firm sharing profits and losses in the ratio of 2:1. The capitals of Vikram and Sumit after all adjustments were Rs. 50,000 and Rs. 40,000 respectively. They admitted Jayant as a partner for 1/3 share in the profits of the firm. Jayant brought proportionate capital in the firm. The amount of capital brought in by Jayant was: [1 mark]

(A) Rs. 45,000

(B) Rs. 30,000

(C) Rs. 60,500

(D) Rs. 90,000

Correct Answer: (A) Rs. 45,000

Solution:

Concept:

- When an incoming partner brings proportionate capital, the existing partners' adjusted combined capital represents their combined new profit share.
- Incoming capital equals existing combined capital multiplied by the incoming share and divided by the existing partners' remaining share.

Step 1: Identify the capital corresponding to the old partners' share Vikram and Sumit's adjusted capitals total $50,000 + 40,000 =$ Rs $90,000$. After Jayant receives $\frac{1}{3}$, the existing partners together retain $\frac{2}{3}$. Thus Rs 90,000 represents two-thirds, not the whole firm's capital.

Step 2: Calculate Jayant's proportionate capital The implied total capital is $90,000 \div \frac{2}{3} =$ Rs $1,35,000$. Jayant must bring

$$1,35,000 \times \frac{1}{3} = \text{Rs } 45,000.$$

Option (B), Rs 30,000, incorrectly takes one-third of the old partners' capital. Option (D) is the existing capital total. Option (C) does not follow the required capital proportion.

Step 3: Conclusion Jayant brings capital of Rs 45,000. Hence, the correct option is (A).

Quick Tip to Solve: Use the quick ratio: Jayant's capital is Rs 90,000 multiplied by $(1/3)/(2/3) = 1/2$.

10 and 11. ***Read the following hypothetical situation and answer questions number 10 and 11 on the basis of information given:***

Anu, Charu and Divya are partners sharing profits and losses in the ratio of 2:1:2. Their capitals were Rs. 5,00,000, Rs. 3,00,000 and Rs. 2,00,000 respectively. Anu personally guaranteed that in any year, Divya's share of profit after allowing interest on capital to all partners @ 5% p.a. would not be less than Rs. 75,000. The profit for the year ending 31st March, 2022 amounted to Rs. 2,00,000.

10. The final amount of profit distributed among the partners after adjustment of guaranteed amount will be: [1 mark]

(A) Anu Rs. 50,000; Charu Rs. 25,000; Divya Rs. 75,000

(B) Anu Rs. 55,000; Charu Rs. 30,000; Divya Rs. 65,000

(C) Anu Rs. 57,000; Charu Rs. 28,000; Divya Rs. 65,000

(D) Anu Rs. 45,000; Charu Rs. 30,000; Divya Rs. 75,000

Correct Answer: (D) Anu Rs. 45,000; Charu Rs. 30,000; Divya Rs. 75,000

Solution:

Concept:

- Interest on capital is an appropriation of profit. Deduct the interest due to all partners before dividing the remaining profit in their agreed ratio.
- Where one partner personally guarantees another partner's minimum profit share, that guarantor alone bears the deficiency; the other partner's share remains unchanged.

Step 1: Determine the profit available for distribution Interest on the capitals of Anu, Charu and Divya at 5% is Rs 25,000, Rs 15,000 and Rs 10,000 respectively. Thus,

$$\text{Total interest} = 25,000 + 15,000 + 10,000 = \text{Rs } 50,000,$$
$$\text{Remaining profit} = 2,00,000 - 50,000 = \text{Rs } 1,50,000.$$

The guarantee applies to Divya's profit share after interest, so the interest must not be counted towards her guaranteed Rs 75,000.

Step 2: Allocate the remaining profit and adjust the guarantee In the ratio $2:1:2$, the normal shares of Anu, Charu and Divya are Rs 60,000, Rs 30,000 and Rs 60,000. Divya's deficiency is $75,000 - 60,000 = \text{Rs } 15,000$, borne solely by Anu. Consequently, Anu retains $60,000 - 15,000 = \text{Rs } 45,000$; Charu retains Rs 30,000 and Divya receives Rs 75,000. These sum to Rs 1,50,000. Option (A) wrongly reduces Charu's share, although she gave no guarantee. Options (B) and (C) leave Divya with only Rs 65,000, below the guaranteed profit share.

Step 3: Conclusion Anu: Rs 45,000; Charu: Rs 30,000; Divya: Rs 75,000. Hence, the correct option is (D).

Quick Tip to Solve: First deduct all interest on capital; then transfer only the guaranteed partner's shortfall from the personal guarantor's profit share.

11. Divya's amount of guarantee is short by the following amount: [1 mark]

(A) Rs. 75,000

(B) Rs. 5,000

(C) Rs. 15,000

(D) Rs. 20,000

Correct Answer: (C) Rs. 15,000

Solution:

Concept:

- A guarantee of profit after interest on capital is tested against the partner's share of the profit remaining after allowing all partners' capital interest.
- Deficiency equals the guaranteed minimum less the normal profit share, when the guaranteed minimum is higher. A personal guarantor bears this deficiency alone.

Step 1: Calculate Divya's normal profit share The total capital is $5,00,000 + 3,00,000 + 2,00,000 =$ Rs $10,00,000$. Hence, total interest on capital is $10,00,000 \times 5/100 =$ Rs $50,000$. Profit available for sharing is therefore $2,00,000 - 50,000 =$ Rs $1,50,000$. Divya's share in the ratio $2 : 1 : 2$ is

$$1,50,000 \times \frac{2}{5} = \text{Rs } 60,000.$$

Step 2: Compare the share with the guaranteed minimum Anu guarantees Divya a profit share of Rs 75,000 after allowing interest on capital. The shortfall is

$$\text{Deficiency} = 75,000 - 60,000 = \text{Rs } 15,000.$$

Anu alone bears this amount. Rs 75,000 in option (A) is the entire guarantee, not the deficiency. Rs 5,000 in option (B) would incorrectly include Divya's Rs 10,000 interest in her profit share for testing the guarantee. Rs 20,000 in option (D) does not equal the difference between the guaranteed amount and her normal share.

Step 3: Conclusion Divya's guaranteed profit share is short by Rs 15,000. Hence, the correct option is (C).

Quick Tip to Solve: Do not add Divya's capital interest to her ordinary share when the minimum profit is guaranteed after allowing interest on capital.

12. Average capital employed in a firm is Rs. 1,60,000. The normal rate of return is 15% and its average profits are Rs. 60,000. Value of goodwill by capitalisation of average profits method is: [1 mark]

(A) Rs. 16,40,000

(B) Rs. 4,00,000

(C) Rs. 2,40,000

(D) Rs. 14,40,000

Correct Answer: (C) Rs. 2,40,000

Solution:

Concept:

- Under capitalisation of average profits, capitalised value is average profit multiplied by 100 and divided by the normal rate of return in percent.
- Goodwill equals capitalised value of the business less actual capital employed.

Step 1: Capitalise the average profits The average annual profit is Rs 60,000 and the normal return is 15%. The capital needed to earn that profit normally is

$$\text{Capitalised value} = \frac{60,000 \times 100}{15} = \text{Rs } 4,00,000.$$

This is the value of the whole business, not goodwill alone.

Step 2: Deduct the capital already employed Actual average capital employed is Rs 1,60,000. Therefore

$$\text{Goodwill} = 4,00,000 - 1,60,000 = \text{Rs } 2,40,000.$$

Option (B) stops before deducting capital employed. Options (A) and (D) do not equal the excess of capitalised value over capital employed. As a check, normal profit is Rs 24,000 and capitalising the Rs 36,000 super profit also gives Rs 2,40,000.

Step 3: Conclusion The value of goodwill is Rs 2,40,000. Hence, the correct option is (C).

Quick Tip to Solve: Capitalise Rs 60,000 at 15 percent, then subtract Rs 1,60,000 to isolate goodwill from total business value.

13. X Ltd. forfeited 100 shares of Rs. 10 each, Rs. 8 called-up for non-payment of allotment money of Rs. 5 per share (including premium of Rs. 2 per share). Out of these, 70 shares were reissued to Ashok as Rs. 8 called-up, for Rs. 10 per share. On forfeiture, 'Share Forfeiture Account' will be: [1 mark]

(A) Credited by Rs. 700

(B) Debited by Rs. 500

(C) Credited by Rs. 500

(D) Debited by Rs. 200

Correct Answer: (C) Credited by Rs. 500

Solution:

Concept:

- On forfeiture, Share Forfeiture Account is credited with the amount already received towards share capital on the forfeited shares.
- Unpaid premium is separate from unpaid share capital; a later reissue does not alter the credit recorded at forfeiture.

Step 1: Separate unpaid capital from premium The Rs 5 unpaid allotment includes Rs 2 premium, so the unpaid capital portion is $5 - 2 =$ Rs 3 per share. Since Rs 8 capital was called up, capital received is $8 - 3 =$ Rs 5 per share. Premium is not part of the forfeited capital receipt.

Step 2: Calculate the credit on all forfeited shares The credit covers all 100 shares forfeited, not merely the 70 later reissued. Therefore

$$\text{Share Forfeiture credit} = 100 \times 5 = \text{Rs } 500.$$

Option (A), Rs 700, is not capital received on these 100 shares. Options (B) and (D) wrongly describe a debit; forfeiture initially credits this account. Reissue terms matter to subsequent entries, not this original credit.

Step 3: Conclusion Share Forfeiture Account is credited by Rs 500. Hence, the correct option is (C).

Quick Tip to Solve: Remove the Rs 2 premium from unpaid allotment before subtracting unpaid capital from Rs 8 called up.

14. A portion of the uncalled capital to be called only in the event of winding up of the company is termed as: [1 mark]

(A) Reserve Capital

(B) Capital Reserve

(C) Uncalled Capital

(D) Unpaid Capital

Correct Answer: (A) Reserve Capital

Solution:

Concept:

- Reserve capital is the part of uncalled share capital that is reserved for being called only when the company is wound up.
- Capital reserve arises from capital profits; it is different from a restriction on when share capital may be called.

Step 1: Identify the restriction The question describes capital which has not yet been called from shareholders. Its defining feature is that the company may call this portion only on winding up. This is the meaning of reserve capital, so option (A) fits the complete description.

Step 2: Eliminate the other terms Option (B), capital reserve, concerns capital profits and is not uncalled share capital. Option (C), uncalled capital, is the broader amount that has not been demanded and need not be restricted to winding up. Option (D), unpaid capital, refers to money remaining unpaid, rather than the special portion callable only at winding up.

Step 3: Conclusion The amount is Reserve Capital. Hence, the correct option is (A).

Quick Tip to Solve: Link the words "called only on winding up" with Reserve Capital; capital reserve instead relates to capital profits.

15. If a fixed amount is withdrawn by a partner at the beginning of each month, 'interest on drawings' on the total amount will be calculated for: [1 mark]

(A) 7 months

(B) 6 months

(C) 5 1/2 months

(D) 6 1/2 months

Correct Answer: (D) 6 1/2 months

Solution:

Concept:

- For equal monthly drawings, interest on total annual drawings is calculated for the average time for which the drawings remain outstanding.
- Average period = (period for first drawing + period for last drawing)/2, when withdrawals are equally spaced.

Step 1: Find the first and last periods A withdrawal at the beginning of the first month remains outstanding for 12 months. A withdrawal at the beginning of the last month remains outstanding for 1 month. The twelve periods therefore run from 12 months down to 1 month.

Step 2: Calculate the average and compare options

$$\text{Average period} = \frac{12+1}{2} = 6\frac{1}{2} \text{ months.}$$

The 6-month period in (B) applies to equal monthly drawings in the middle of each month, while the $5\frac{1}{2}$-month period in (C) applies to drawings at each month-end. The 7-month period in (A) does not equal the average of 12 and 1.

Step 3: Conclusion Interest is calculated for $6\frac{1}{2}$ months on the total amount withdrawn. Hence, the correct option is (D).

Quick Tip to Solve: For monthly drawings, use 6.5 months at the beginning, 6 months in the middle and 5.5 months at the end.

16. Aditi and Bobby were partners with capitals of Rs. 30,000 each. They admitted Chetan as a new partner for 1/4 share in the profits of the firm. Chetan brought Rs. 48,000 as his capital. On Chetan's admission, the Profit and Loss Account of the firm showed a credit balance of Rs. 24,000. Value of goodwill of the firm on Chetan's admission will be: [1 mark]

(A) Rs. 40,000

(B) Rs. 60,000

(C) Rs. 75,000

(D) Rs. 30,000

Correct Answer: (B) Rs. 60,000

Solution:

Concept:

- Capital implied by the incoming partner = capital brought in divided by the incoming partner's profit share.
- Hidden goodwill equals the implied capital of the whole firm less the actual total adjusted capital, including accumulated profits and the incoming partner's capital.

Step 1: Find the capital implied by Chetan Chetan brings Rs 48,000 for a $\frac{1}{4}$ share. Thus the value implied for the whole firm is

$$\frac{48,000}{1/4} = \text{Rs } 1,92,000.$$

Step 2: Deduct the actual adjusted capital The credit balance of Profit and Loss Account belongs to

the old partners and increases their aggregate capital. Hence,

$$\begin{aligned}\text{Actual capital} &= 30,000 + 30,000 + 24,000 + 48,000 \\ &= \text{Rs } 1,32,000. \\ \text{Hidden goodwill} &= 1,92,000 - 1,32,000 \\ &= \text{Rs } 60,000.\end{aligned}$$

Omitting the accumulated profit would overstate goodwill. Options (A), (C) and (D) do not equal the difference after including all the actual capital and the accumulated profit.

Step 3: Conclusion Goodwill of the firm is Rs 60,000. Hence, the correct option is (B).

Quick Tip to Solve: Add the old credit balance of Profit and Loss Account to actual capital before subtracting it from the implied firm value.

17(a). M Ltd. issued 10,000, 8% Debentures of Rs. 100 each at 6% discount. The amount was payable as Rs. 60 on application and the balance on allotment. All money was duly received.
Pass necessary journal entries in the books of M Ltd. [3 marks]

Solution:

Concept:

- Debentures are credited at face value. The difference between face value and issue proceeds is debited to Discount on Issue of Debentures Account.
- Application money received is transferred to the debentures account; the remaining issue price becomes due and is collected on allotment.

Step 1: Calculate the amounts payable **Working Notes**

Face value is $10,000 \times 100 = \text{Rs } 10,00,000$. Discount is $10,00,000 \times 6\% = \text{Rs } 60,000$, so the issue proceeds are Rs 9,40,000. Application money is $10,000 \times 60 = \text{Rs } 6,00,000$. The balance payable on allotment is Rs 34 per debenture, giving $10,000 \times 34 = \text{Rs } 3,40,000$. The Rs 40 per debenture credited on allotment comprises Rs 34 receivable plus Rs 6 discount. The 8% rate determines debenture interest, not the issue price; no interest entry is required by the stated transactions.

Step 2: Record the journal entries **Journal of M Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application A/c (Being application money received on 10,000 debentures at Rs 60 each)		6,00,000	6,00,000
	Debenture Application A/c Dr. To 8% Debentures A/c (Being application money transferred to debentures account)		6,00,000	6,00,000
	Debenture Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 8% Debentures A/c (Being allotment due and discount on issue recorded)		3,40,000 60,000	4,00,000
	Bank A/c Dr. To Debenture Allotment A/c (Being allotment money received in full)		3,40,000	3,40,000

The debentures account receives total credits of Rs 10,00,000, while bank receipts total Rs 9,40,000. The difference is the recorded discount of Rs 60,000.

Step 3: Conclusion The issue records Rs 10,00,000 in 8% Debentures, Rs 60,000 as discount and total bank receipts of Rs 9,40,000. Both application and allotment amounts have been received in full.

Quick Tip to Solve: Find the issue price first: Rs 100 less Rs 6 discount gives Rs 94; deduct Rs 60 application to obtain Rs 34 allotment.

OR

17(b). A company forfeited 4,000 shares of Rs. 10 each fully called-up, on which application money of Rs. 3 each has been paid. Out of these, 2,000 shares were reissued as fully paid up for Rs. 18,000. Pass necessary journal entries for above transactions. [3 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with the called-up amount, credit unpaid calls with the unpaid amount, and credit Share Forfeiture with the capital amount already received.
- Reissue discount is debited to Share Forfeiture. Only the remaining forfeiture balance relating to shares actually reissued is transferred to Capital Reserve.

Step 1: Compute forfeiture and reissue amounts **Working Notes**

The called-up capital forfeited is $4,000 \times 10 =$ Rs $40,000$. The application money received is $4,000 \times 3 =$ Rs $12,000$; the unpaid balance is Rs 28,000. As the question does not split the unpaid amount among calls, Calls in Arrears Account records it. The 2,000 reissued shares have a face value of Rs 20,000 but bring Rs 18,000, giving a reissue discount of Rs 2,000. The forfeiture amount belonging to these shares is $2,000 \times 3 =$ Rs $6,000$. Thus the surplus available for Capital Reserve is Rs 6,000 less Rs

2,000.

Step 2: Pass the journal entries **Journal of the Company**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being 4,000 fully called-up shares forfeited for non-payment of Rs 7 per share)		40,000	 28,000 12,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 2,000 forfeited shares reissued as fully paid for Rs 9 each)		18,000 2,000	 20,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on 2,000 reissued shares transferred to Capital Reserve)		4,000	 4,000

The remaining 2,000 forfeited shares have not been reissued. Their forfeiture amount of Rs 6,000 stays in Share Forfeiture Account and cannot yet be transferred to Capital Reserve.

Step 3: Conclusion The required entries record forfeiture of Rs 40,000 share capital, reissue of Rs 20,000 share capital and transfer of Rs 4,000 to Capital Reserve. Share Forfeiture retains Rs 6,000 for the unreissued shares.

Quick Tip to Solve: For a partial reissue, first allocate forfeiture money to the reissued shares; deduct their reissue discount before transferring the surplus.

18(a). Raman, Manan and Naman were partners sharing profit in the ratio of 2:1:1. Raman withdrew Rs. 3,000 every month and Manan withdrew Rs. 4,000 every month. Interest on drawings @ 6% p.a. was charged whereas the partnership deed was silent about interest on drawings.

Showing your working clearly, pass the necessary adjustment entry to rectify the error. [3 marks]

Solution:

Concept:

- When the partnership deed is silent, interest on drawings is not chargeable. An erroneous charge must be refunded and the corresponding excess profit distributed must be reversed.
- When monthly withdrawal dates are unspecified, use an average period of six months. The net adjustment combines each partner's refund with their share of the profit correction.

Step 1: Calculate the wrongly charged interest **Working Notes**

Since no withdrawal dates within the months are stated, the average period is six months. Raman

withdrew $3,000 \times 12 = \text{Rs } 36,000$ and Manan withdrew $4,000 \times 12 = \text{Rs } 48,000$.

$$\text{Raman's interest} = 36,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,080,$$
$$\text{Manan's interest} = 48,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,440.$$

Thus Rs 2,520 was incorrectly added to divisible profit. Its allocation in the ratio $2 : 1 : 1$ gave excess credits of Rs 1,260 to Raman, Rs 630 to Manan and Rs 630 to Naman.

Step 2: Determine the net adjustment Credit Raman and Manan with refunds of Rs 1,080 and Rs 1,440 respectively. Debit all partners with their shares of the excess distributed profit.

Particulars (Rs)	Raman	Manan	Naman
Refund of wrong interest (Cr.)	1,080	1,440	0
Reverse excess profit (Dr.)	1,260	630	630
Net adjustment	180 Dr.	810 Cr.	630 Dr.

The net debits of Rs 180 and Rs 630 exactly equal the net credit of Rs 810. Merely refunding interest would leave excess profit credited to the partners and would not fully correct the error.

Step 3: Pass the rectifying entry **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Raman's Capital A/c Dr.		180	
	Naman's Capital A/c Dr.		630	
	To Manan's Capital A/c			810
	(Being erroneous interest on drawings and the related profit distribution rectified)			

Capital accounts are used as fixed capitals are not specified; if capitals are maintained as fixed, use the respective Current Accounts for the same amounts.

Step 4: Conclusion Debit Raman's Capital Account by Rs 180 and Naman's Capital Account by Rs 630; credit Manan's Capital Account by Rs 810.

Quick Tip to Solve: Refund the wrongly charged drawings interest, then reverse its profit distribution in 2:1:1; record only the net difference for each partner.

OR

18(b). Arun and Barun were partners sharing profits in the ratio of 3:2. Their capitals were Rs. 50,000 and Rs. 30,000 respectively. Partnership deed provided for interest on capital @ 6% p.a. to Arun and Barun and quarterly salary of Rs. 1,000 to Barun. Arun had given a loan of Rs. 1,00,000 on 1st October, 2021 to the firm without any agreement about interest. For the year 2021-22, the profits earned were Rs. 26,800.

Prepare Profit and Loss Appropriation Account of the firm for the year ended 31st March, 2022.

[3 marks]

Solution:

Concept:

- Interest on a partner's loan is a charge against profit. In the absence of an agreement, it is allowed at 6% per annum; it is deducted before the profit is transferred to the Profit and Loss Appropriation Account.
- Interest on capital and a partner's salary are appropriations of profit under the deed. The balance is distributed in the agreed profit-sharing ratio of $3:2$.

Step 1: Determine profit available for appropriation Arun's loan was outstanding from 1st October, 2021 to 31st March, 2022, a period of six months. Its interest is

$$1,00,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 3,000.$$

This is debited to the Profit and Loss Account, not the appropriation account. Therefore, profit transferred for appropriation is $26,800 - 3,000 = \text{Rs } 23,800$.

Step 2: Calculate the appropriations and divisible profit Arun's interest on capital is $50,000 \times 6\% = \text{Rs } 3,000$; Barun's is $30,000 \times 6\% = \text{Rs } 1,800$. Barun's annual salary is $1,000 \times 4 = \text{Rs } 4,000$, since the stated salary is quarterly.

$$\begin{aligned} \text{Divisible profit} &= 23,800 - 3,000 - 1,800 - 4,000 \\ &= \text{Rs } 15,000, \\ \text{Arun's share} &= 15,000 \times \frac{3}{5} = \text{Rs } 9,000, \\ \text{Barun's share} &= 15,000 \times \frac{2}{5} = \text{Rs } 6,000. \end{aligned}$$

Step 3: Prepare the Profit and Loss Appropriation Account **Profit and Loss Appropriation Account for the year ended 31st March, 2022**

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Interest on Capital:		By Profit and Loss A/c	23,800
Arun	3,000		
Barun	1,800		
To Barun's Salary	4,000		
To Partners' Capital A/cs:			
Arun	9,000		
Barun	6,000		
Total	23,800	Total	23,800

The entire divisible profit is transferred to the partners; hence this account has no balance carried down.

Step 4: Conclusion The appropriation account totals Rs $23,800$ on each side. After interest on capital and Barun's salary, Arun receives Rs $9,000$ and Barun Rs $6,000$ as their shares of residual profit.

Quick Tip to Solve: Deduct the six-month loan interest first, and multiply Barun's quarterly salary by four before sharing the residual profit in 3:2.

19. Kanak, Kamal and Kanha are partners in a firm. Their fixed capitals were Rs. 5,00,000, Rs. 10,00,000 and Rs. 15,00,000 respectively. They share profits in the ratio of their fixed capitals. Firm closes its books of accounts on 31st March every year. Kanak died on 30th September, 2021. Kanak's share of profit till the date of death from the last Balance Sheet date, was to be calculated on the basis of sales. Sales and Profit for the year 2020-21 were Rs. 20,00,000 and Rs. 2,00,000 respectively. Sales from 1st April, 2021 to 30th September, 2021 were Rs. 6,00,000.

(i) Calculate Kanak's share of profit.

(ii) Pass necessary journal entry to record Kanak's share of profit. [3 marks]

Solution:

Concept:

- When profit to the date of death is estimated on sales, apply the previous year's profit-to-sales percentage to sales up to the date of death, then multiply by the deceased partner's profit share.
- The estimated share is debited to Profit and Loss Suspense Account. Under the fixed capital method, profit adjustments are credited to the partner's Current Account, leaving fixed capital unchanged until final settlement.

Step 1: Find Kanak's profit share and the profit-to-sales rate The partners share profit in the ratio of their fixed capitals:

$$5,00,000 : 10,00,000 : 15,00,000 = 1 : 2 : 3.$$

Hence Kanak's fraction is $1/(1+2+3) = 1/6$. The rate of profit on sales for 2020–21 is

$$\frac{2,00,000}{20,00,000} \times 100 = 10\%.$$

The previous year's sales are used to find a margin; the full previous year's profit is not directly divided among the partners for the current period.

Step 2: Estimate profit up to death and calculate Kanak's entitlement Actual sales from 1st April, 2021 to 30th September, 2021 are Rs 6,00,000. Applying the established margin gives

$$\text{Estimated firm profit} = 6,00,000 \times \frac{10}{100} = \text{Rs } 60,000,$$
$$\text{Kanak's share} = 60,000 \times \frac{1}{6} = \text{Rs } 10,000.$$

No additional six-month fraction is applied: Rs 6,00,000 already represents sales only up to the date of death.

Step 3: Record the share of profit under the fixed capital method **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2021				
Sept. 30	Profit and Loss Suspense A/c Dr.		10,000	
	To Kanak's Current A/c			10,000
	(Being Kanak's estimated share of profit up to the date of death credited on the basis of sales)			

The debit records the provisional profit allocation, while the credit increases the amount due to Kanak. The Current Account balance is transferred for settlement with the deceased partner's estate when the final amount payable is determined.

Step 4: Conclusion Kanak's share of profit is $\boxed{\text{Rs } 10,000}$. Debit Profit and Loss Suspense Account and credit Kanak's Current Account by Rs 10,000 each, since the capitals are fixed.

Quick Tip to Solve: Use sales up to death times the old profit margin times Kanak's one-sixth share; do not multiply again by six-twelfths.

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20. Sunny, Vaibhav and Mita were partners in a firm sharing profits and losses in the ratio of 5:3:2. Sunny retired on 31st March, 2022. After making all adjustments relating to revaluation, goodwill and accumulated profit, etc. the capital accounts of Vaibhav and Mita showed a credit balance of Rs. 1,00,000 and Rs. 50,000 respectively. It was decided to adjust the capitals of Vaibhav and Mita in their new profit sharing ratio.

Calculate the new capitals of the partners and pass necessary journal entries for bringing in or withdrawal of the necessary amounts by the partners. [3 marks]

Solution:

Concept:

- When no different new ratio is given, continuing partners retain their relative profit shares. After Sunny retires, Vaibhav and Mita therefore share profits in $3 : 2$.
- With no revised total capital specified, distribute the combined adjusted capitals in the new ratio. Compare each required capital with its existing balance: excess is withdrawn and deficiency is brought in through Bank Account.

Step 1: Determine total capital and the new ratio Sunny's share is removed from the old ratio $5 : 3 : 2$.

The continuing partners' relative shares are 3 and 2, so Vaibhav's new share is $3/5$ and Mita's is $2/5$. Their existing balances already include the adjustments for goodwill, revaluation and accumulated profits; these adjustments must not be repeated.

$$\text{Total capital} = 1,00,000 + 50,000 = \text{Rs } 1,50,000.$$

Step 2: Calculate required capitals and cash adjustments

$$\text{Vaibhav's new capital} = 1,50,000 \times \frac{3}{5} = \text{Rs } 90,000,$$
$$\text{Mita's new capital} = 1,50,000 \times \frac{2}{5} = \text{Rs } 60,000.$$

Vaibhav has an excess capital of $1,00,000 - 90,000 = \text{Rs } 10,000$, which he withdraws. Mita has a deficiency of $60,000 - 50,000 = \text{Rs } 10,000$, which she brings in. The equal cash adjustments leave the firm's combined capital unchanged.

Step 3: Pass the entries for withdrawal and additional capital **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
2022				
Mar. 31	Vaibhav's Capital A/c Dr.		10,000	
	To Bank A/c			10,000
	(Being excess capital withdrawn by Vaibhav)			
Mar. 31	Bank A/c Dr.		10,000	
	To Mita's Capital A/c			10,000
	(Being deficiency of capital brought in by Mita)			

The first entry reduces Vaibhav's capital and bank balance; the second increases Mita's capital and bank balance. Check: $90,000 : 60,000 = 3 : 2$ and $90,000 + 60,000 = 1,50,000$.

Step 4: Conclusion The new capitals are $\boxed{\text{Vaibhav: Rs } 90,000; \quad \text{Mita: Rs } 60,000}$. Vaibhav withdraws Rs 10,000 and Mita brings in Rs 10,000.

Quick Tip to Solve: Add the already adjusted capitals first, allocate that total in 3:2, and compare each target with the old balance to decide withdrawal or contribution.

21. Ravi, Kavi and Chand were partners sharing profits in the ratio of 5:3:2. On 31st March, 2022, their Balance Sheet was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Sundry Creditors	70,000	Land and Building	3,50,000
Chand's Loan	20,000	Stock	3,00,000
Mrs. Chand's Loan	20,000	Debtors 2,00,000 Less provision 10,000	1,90,000
Capitals: Ravi 4,00,000 Kavi 3,00,000 Chand 1,00,000	8,00,000	Cash	70,000
Total	9,10,000	Total	9,10,000

The firm was dissolved on the above date.

(i) Land and Building and Stock were sold for Rs. 6,00,000. Debtors were realised at 10% less than the book value.

(ii) Mrs. Chand's loan was settled by giving her a computer of Rs. 22,000 not recorded in the books.

(iii) Ravi paid off one of the creditors Rs. 20,000 in settlement of his amount of Rs. 30,000.

(iv) Remaining creditors were paid in cash.

Prepare Realisation Account. [4 marks]

Solution:

Concept:

- Realisation Account is debited with the book values of non-cash assets and credited with their related provisions and outside liabilities. A partner's loan and cash are not transferred to it.
- Realisation receipts are credited and payments for outside liabilities are debited. The final profit or loss is transferred to partners' capital accounts in their profit-sharing ratio, here $5:3:2$.

Step 1: Work out the cash realisation and settlement amounts Debtors have a gross book value of Rs 2,00,000; the provision of Rs 10,000 is transferred separately to the credit of Realisation Account. Therefore, the cash collected is

$$2,00,000 \times \frac{90}{100} = \text{Rs } 1,80,000.$$

Together with Rs 6,00,000 from land and building and stock, the total receipt is Rs 7,80,000. Ravi pays Rs 20,000 personally to settle a creditor whose book balance is Rs 30,000; Realisation Account is debited and Ravi's Capital Account credited with the actual amount paid, Rs 20,000. The remaining creditors paid by the firm are $70,000 - 30,000 = \text{Rs } 40,000$.

Step 2: Treat the loan settled by an unrecorded asset Mrs. Chand's loan is an outside liability, so Rs 20,000 is transferred to the credit of Realisation Account. When an outside creditor accepts an unrecorded asset in full settlement, no further entry is made for that settlement. Thus, the computer's stated value of Rs 22,000 is not separately debited or credited. Chand's own loan of Rs 20,000 is a partner's loan and stays outside Realisation Account; the opening cash of Rs 70,000 also stays outside it.

Step 3: Prepare and close Realisation Account **Realisation Account as at 31st March, 2022**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Land and Building	3,50,000	By Provision for Doubtful Debts	10,000	
	To Stock	3,00,000	By Sundry Creditors	70,000	
	To Debtors	2,00,000	By Mrs. Chand's Loan	20,000	
	To Ravi's Capital	20,000	By Bank (assets realised)	7,80,000	
	To Bank (creditors)	40,000	By Partners' Capital Accounts (loss):		
			Ravi	15,000	
			Kavi	9,000	
			Chand	6,000	
	Total	9,10,000	Total	9,10,000	

Before transferring the loss, debits total Rs 9,10,000 and credits total Rs 8,80,000. The difference is distributed as $30,000 \times 5/10$, $30,000 \times 3/10$ and $30,000 \times 2/10$. Since this is a closing account, its balance is transferred to partners' capitals and no balance is carried down.

Step 4: Conclusion The realisation loss is $\boxed{\text{Rs } 30,000}$, borne by Ravi, Kavi and Chand as Rs 15,000, Rs 9,000 and Rs 6,000 respectively. Realisation Account closes with equal totals of Rs 9,10,000.

Quick Tip to Solve: Transfer debtors at Rs 2,00,000 and the provision separately; apply the 10% reduction to gross debtors. Do not record a second entry when an unrecorded asset settles an outside liability.

22. On 1st April, 2021, Prabha Ltd. was formed with an authorised capital of Rs. 90,00,000 divided into 90,000 equity shares of Rs. 100 each. The company invited applications for 80,000 equity shares. The amount was payable as follows:

On application: Rs. 30 per share

On allotment: Rs. 40 per share

On first and final call: Balance amount

Applications for 1,00,000 shares were received. Applications for 20,000 shares were rejected and the application money was refunded. All calls were made. A shareholder holding 600 shares did not pay the first and final call.

Present the 'Share Capital' in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013 as at 31st March, 2022. Also prepare 'Notes to Accounts' for the same. [4 marks]

Solution:

Concept:

- Authorised capital is the maximum capital permitted by the company's constitution. Issued capital is the face value of shares offered for subscription; rejected applications do not become subscribed capital.
- Subscribed capital is disclosed separately for shares fully paid up and shares not fully paid up. Calls unpaid are deducted from the called-up amount to arrive at paid-up share capital.

Step 1: Calculate subscribed capital and calls unpaid Out of applications for 1,00,000 shares,

applications for 20,000 shares were rejected and refunded. Hence, the number of shares subscribed is $1,00,000 - 20,000 = 80,000$, the same as the number issued. All calls have been made, so the full face value of Rs 100 per share has been called up.

$$\text{First and final call per share} = 100 - 30 - 40 = \text{Rs } 30,$$
$$\text{Calls unpaid on 600 shares} = 600 \times 30 = \text{Rs } 18,000,$$
$$\text{Fully paid shares} = 80,000 - 600 = 79,400.$$

The 600 partly paid shares have received Rs 70 per share, giving paid-up capital of $600 \times 70 =$ Rs $42,000$. There is no forfeiture stated, so these shares remain included in subscribed capital.

Step 2: Present the Balance Sheet extract **Prabha Ltd.**

Balance Sheet (Extract) as at 31st March, 2022

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	79,82,000

Step 3: Prepare the supporting note to accounts **Notes to Accounts: Note 1 – Share Capital**

Particulars	Amount (Rs)
Authorised Capital	
90,000 equity shares of Rs 100 each	90,00,000
Issued Capital	
80,000 equity shares of Rs 100 each	80,00,000
Subscribed Capital	
(a) Subscribed and fully paid up	
79,400 equity shares of Rs 100 each	79,40,000
(b) Subscribed but not fully paid up	
600 equity shares of Rs 100 each, fully called up	60,000
Less: Calls unpaid (600 shares at Rs 30 each)	(18,000)
Paid-up amount on 600 shares	42,000
Total Share Capital (a) + (b)	**79,82,000**

The authorised and issued figures describe different capital limits and are not added to subscribed capital. The Balance Sheet figure includes only Rs 79,40,000 on fully paid shares plus Rs 42,000 on shares not fully paid up. Refunded application money creates no share capital or calls-in-arrears balance.

Step 4: Conclusion Share Capital shown under Shareholders' Funds is $\boxed{\text{Rs } 79,82,000}$, comprising Rs 79,40,000 fully paid-up capital and Rs 42,000 paid-up capital on shares not fully paid up; calls unpaid are Rs 18,000.

Quick Tip to Solve: Separate the 600 defaulting shares from the 79,400 fully paid shares; deduct only their unpaid Rs 30 call, not their full Rs 100 face value.

23(a). **On 31st March, 2022 the Balance Sheet of partners A and B, who were sharing profits in the ratio of 3:2 was as follows:**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	30,000	Cash at Bank	20,000
Investment Fluctuation Fund	12,000	Debtors 85,000 Less provision 5,000	80,000
General Reserve	25,000	Stock	1,30,000
Capitals: A 1,60,000 B 1,40,000	3,00,000	Investments	60,000
		Furniture	77,000
Total	3,67,000	Total	3,67,000

On 1st April 2022, they decided to admit C as a new partner for 1/5 share in the profits on the following terms:

(i) C brought Rs. 1,00,000 as his Capital and Rs. 50,000 as his share of Premium for Goodwill.

(ii) One month salary Rs. 2,000 was outstanding.

(iii) The market value of investments was Rs. 50,000.

(iv) A debtor, whose dues were written off as bad debts, paid Rs. 12,000 in full settlement.

Prepare Revaluation Account and Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- Revaluation profit or loss belongs to the old partners in their old profit-sharing ratio, here A:B $= 3 : 2$. An unrecorded liability is debited and recovery of an earlier bad debt is credited to Revaluation Account.
- Investment Fluctuation Fund first absorbs the fall in investment value; only its surplus is transferred to old partners' capitals. General Reserve also belongs to the old partners.
- Goodwill premium compensates the sacrificing partners. When the new partner's share is acquired in the old ratio, the sacrificing ratio is the old ratio.

Step 1: Working Notes: distribute reserves and goodwill C acquires $1/5$ of profits. In the absence of a different arrangement, A and B sacrifice in their old ratio $3 : 2$. Their new shares are $(4/5)(3/5) = 12/25$ and $(4/5)(2/5) = 8/25$; C's share is $5/25$. The new ratio is therefore $12 : 8 : 5$, and the sacrifices $3/25 : 2/25$ give $3 : 2$.

$$\text{Fall in investments} = 60,000 - 50,000 = \text{Rs } 10,000,$$
$$\text{Surplus fund} = 12,000 - 10,000 = \text{Rs } 2,000.$$

The fund absorbs the entire investment loss, so no investment loss is charged again to Revaluation Account. Allocate the surplus fund: A, Rs 1,200; B, Rs 800. Allocate General Reserve of Rs 25,000: A, Rs 15,000; B, Rs 10,000. C's goodwill premium of Rs 50,000 is credited to A, Rs 30,000, and B, Rs 20,000. C's separate capital contribution is Rs 1,00,000. The premium remains in the firm because no withdrawal is specified.

Step 2: Prepare Revaluation Account Outstanding salary creates a liability of Rs 2,000. The Rs 12,000 recovered from a debtor already written off increases bank and is a revaluation gain; it does not reduce the existing debtors. Hence revaluation profit is Rs 10,000, distributed as Rs 6,000 to A and Rs 4,000 to B.

Revaluation Account (on 1st April, 2022)

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Outstanding Salary A/c	2,000	By Bank A/c (bad debts recovered)	12,000
To A's Capital A/c (profit)	6,000		
To B's Capital A/c (profit)	4,000		
Total	12,000	Total	12,000

Step 3: Prepare Partners' Capital Accounts Credit each old partner with the opening capital, reserve, surplus Investment Fluctuation Fund, goodwill premium and revaluation profit. Credit C only with his capital contribution. No capital adjustment or withdrawal is required by the question.

Partners' Capital Accounts

Dr.				Cr.			
Particulars	A Rs	B Rs	C Rs	Particulars	A Rs	B Rs	C Rs
To Balance c/d	2,12,200	1,74,800	1,00,000	By Balance b/d	1,60,000	1,40,000	—
				By General Reserve	15,000	10,000	—
				By Investment Fluctuation Fund	1,200	800	—
				By Premium for Goodwill A/c	30,000	20,000	—
				By Revaluation A/c	6,000	4,000	—
				By Bank A/c	—	—	1,00,000
Total	2,12,200	1,74,800	1,00,000	Total	2,12,200	1,74,800	1,00,000

Step 4: Conclusion Revaluation profit is $\boxed{\text{Rs } 10,000}$. The closing capitals are A: $\boxed{\text{Rs } 2,12,200}$, B: $\boxed{\text{Rs } 1,74,800}$, and C: $\boxed{\text{Rs } 1,00,000}$. Both sides of each capital account agree.

Quick Tip to Solve: Use the Investment Fluctuation Fund against the Rs 10,000 fall first; distribute only the Rs 2,000 excess, so the same investment loss is never charged twice.

OR

23(b). Anita, Geeta and Sita were partners in a firm sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as at 31st March, 2022 was as follow:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals: Anita 2,00,000 Geeta 2,00,000 Sita 1,00,000	5,00,000	Land and Building	4,80,000
General Reserve	30,000	Investments	1,20,000
Creditors	5,00,000	Debtors 1,50,000 Less Provision 10,000	1,40,000
		Stock	1,20,000
		Cash at Bank	1,70,000
Total	10,30,000	Total	10,30,000

On the above date, Anita retired from the firm and the remaining partners decided to carry on the business. It was agreed to revalue the assets and reassess the liabilities as follows:

(i) Goodwill of the firm was valued at Rs. 3,00,000.

(ii) Land and Building was to be appreciated by Rs. 1,23,000.

(iii) Bad debts amounted to Rs. 20,000. A provision for doubtful debts was to be maintained at 10% on debtors.

(iv) Anita was paid Rs. 80,000 immediately by cheque. The balance amount was transferred to her loan account which was to be paid in two equal annual instalments along with interest @ 10% p.a.

Prepare Revaluation Account and Partners' Capital Accounts on Anita's retirement. [6 marks]

Solution:

Concept:

- Revaluation profit and existing reserves are shared by all partners in their old ratio, here Anita:Geeta:Sita $= 2:2:1$.
- The retiring partner's goodwill entitlement is the firm's goodwill multiplied by her old share. Continuing partners compensate her in their gaining ratio, without opening a goodwill account.
- New provision for doubtful debts is calculated on debtors remaining after additional bad debts. Only the net change from the old debtors' carrying amount affects revaluation.

Step 1: Working Notes: calculate the debtors' adjustment and revaluation profit Write off the bad debts before calculating the new provision:

$$\text{Remaining debtors} = 1,50,000 - 20,000 = \text{Rs } 1,30,000,$$
$$\text{Required provision} = 1,30,000 \times 10\% = \text{Rs } 13,000,$$
$$\text{Increase over old provision} = 13,000 - 10,000 = \text{Rs } 3,000.$$

Thus the total decrease in net debtors is Rs 23,000: bad debts Rs 20,000 plus additional provision Rs 3,000. This agrees with the change from old net debtors of Rs 1,40,000 to new net debtors of Rs

1,17,000. Land and Building increases by Rs 1,23,000, giving a revaluation profit of Rs 1,00,000. Allocate this in $2:2:1$: Anita Rs 40,000, Geeta Rs 40,000 and Sita Rs 20,000.

Step 2: Prepare Revaluation Account The appreciation is a credit to Revaluation Account; bad debts and the increase in provision are debits. The balancing profit is transferred to all three old partners.

Revaluation Account (on 31st March, 2022)

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Debtors A/c (bad debts)	20,000	By Land and Building A/c	1,23,000
To Provision for Doubtful Debts A/c (increase)	3,000		
To Anita's Capital A/c (profit)	40,000		
To Geeta's Capital A/c (profit)	40,000		
To Sita's Capital A/c (profit)	20,000		
Total	1,23,000	Total	1,23,000

Step 3: Working Notes: adjust goodwill and General Reserve No changed ratio is specified for Geeta and Sita, so they continue in their relative old ratio $2:1$. Their gains are

$$\text{Geeta's gain} = \frac{2}{3} - \frac{2}{5} = \frac{4}{15},$$
$$\text{Sita's gain} = \frac{1}{3} - \frac{1}{5} = \frac{2}{15}.$$

The gaining ratio is $2:1$. Anita's goodwill entitlement is $3,00,000 \times 2/5 = \text{Rs } 1,20,000$. Debit Geeta's capital by Rs 80,000 and Sita's capital by Rs 40,000, and credit Anita's capital by Rs 1,20,000. General Reserve of Rs 30,000 is credited in the old ratio: Anita Rs 12,000, Geeta Rs 12,000 and Sita Rs 6,000.

Step 4: Prepare Partners' Capital Accounts and settle Anita's balance Anita's total entitlement is $2,00,000 + 12,000 + 40,000 + 1,20,000 = \text{Rs } 3,72,000$. After the immediate cheque payment of Rs 80,000, transfer Rs 2,92,000 to her Loan Account. Future interest is not accrued on the retirement date. The two annual principal instalments will each be Rs 1,46,000, with interest on the outstanding loan separately as it becomes due.

Partners' Capital Accounts

Dr.				Cr.			
Particulars	Anita Rs	Geeta Rs	Sita Rs	Particulars	Anita Rs	Geeta Rs	Sita Rs
To Anita's Capital A/c (goodwill)	—	80,000	40,000	By Balance b/d	2,00,000	2,00,000	1,00,000
To Bank A/c	80,000	—	—	By General Reserve	12,000	12,000	6,000
To Anita's Loan A/c	2,92,000	—	—	By Revaluation A/c	40,000	40,000	20,000
To Balance c/d	—	1,72,000	86,000	By Geeta's Capital A/c (goodwill)	80,000	—	—
				By Sita's Capital A/c (goodwill)	40,000	—	—
Total	3,72,000	2,52,000	1,26,000	Total	3,72,000	2,52,000	1,26,000

Step 5: Conclusion Revaluation profit is $\boxed{\text{Rs } 1,00,000}$. Anita's entitlement is Rs 3,72,000, settled by Rs 80,000 in bank and $\boxed{\text{Rs } 2,92,000}$ transferred to her loan. Geeta's and Sita's closing capitals are respectively $\boxed{\text{Rs } 1,72,000}$ and $\boxed{\text{Rs } 86,000}$.

Quick Tip to Solve: Calculate the 10% provision on Rs 1,30,000 after bad debts; then debit only its Rs 3,000 increase in addition to the Rs 20,000 write-off.

24. Trisha, Anisha and Rishika were partners in a firm sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as at 31st March, 2022 was as follows:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capitals:		Plant and Machinery	5,00,000
Trisha: 3,00,000		Stock	1,00,000
Anisha: 2,00,000		Debtors	60,000
Rishika: 1,00,000	6,00,000	Cash at Bank	40,000
General Reserve	50,000		
Creditors	50,000		
Total	7,00,000	Total	7,00,000

Trisha died on 31st July, 2022. According to the partnership deed, the executors of the deceased partner were entitled to:

(i) Balance in partner's capital account.

(ii) Salary @ Rs. 15,000 per quarter.

(iii) Share of goodwill calculated on the basis of twice the average of past three year's profits.

(iv) Share of profits from the closure of the last accounting year till the date of death on the basis of last year's profit. Profit for 2019-20, 2020-21 and 2021-22 were Rs. 1,00,000, Rs. 2,00,000 and Rs. 1,50,000 respectively.

(v) Trisha withdrew Rs. 20,000 on 1st May, 2022 for her personal use.

Showing your working clearly, prepare Trisha's Capital Account to be rendered to her executors.

[6 marks]

Solution:

Concept:

- A deceased partner's capital is credited with the opening capital, share of accumulated reserves, goodwill and all earnings due up to death. Drawings reduce the amount payable to the executors.
- Trisha's old profit share is $2/5$. Salary and estimated profit accrue for four months, from 1st April to 31st July, 2022; salary is a separate entitlement under the deed.
- When no new ratio is specified, continuing partners retain their relative old shares. Anisha and Rishika therefore gain in the ratio $2:1$, and compensate Trisha for goodwill in that ratio.

Step 1: Calculate reserve, salary and interim profit Trisha's share of the general reserve earned before

her death is credited to her capital in the old ratio:

$$\text{Reserve share} = 50,000 \times \frac{2}{5} = \text{Rs } 20,000.$$

A quarter contains three months, so the salary entitlement for four months is

$$\text{Salary} = 15,000 \times \frac{4}{3} = \text{Rs } 20,000.$$

The deed specifies last year's profit as the basis for interim profit. Hence use the 2021–22 profit of Rs 1,50,000, not the three-year average:

$$\text{Profit share} = 1,50,000 \times \frac{4}{12} \times \frac{2}{5} = \text{Rs } 20,000.$$

The estimated profit is credited through Profit and Loss Suspense Account because final current-year profit has not yet been ascertained. No interest on capital or drawings is specified, so neither is introduced.

Step 2: Calculate goodwill and its adjustment Goodwill is twice the average profit of the three completed years:

$$\text{Average profit} = \frac{1,00,000 + 2,00,000 + 1,50,000}{3} = \text{Rs } 1,50,000,$$
$$\text{Firm's goodwill} = 1,50,000 \times 2 = \text{Rs } 3,00,000,$$
$$\text{Trisha's share} = 3,00,000 \times \frac{2}{5} = \text{Rs } 1,20,000.$$

Anisha's capital is debited by $1,20,000 \times 2/3 = \text{Rs } 80,000$, and Rishika's capital by $1,20,000 \times 1/3 = \text{Rs } 40,000$. Both amounts are credited to Trisha's capital; this adjusts goodwill without raising a goodwill asset.

Step 3: Prepare the capital account and transfer the amount due Trisha's Capital Account (up to 31st July, 2022)

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Drawings	20,000	By Balance b/d	3,00,000
To Trisha's Executors' A/c	4,60,000	By General Reserve	20,000
		By Salary	20,000
		By Anisha's Capital A/c	80,000
		By Rishika's Capital A/c	40,000
		By Profit and Loss Suspense A/c	20,000
Total	4,80,000	Total	4,80,000

The debit for drawings records the Rs 20,000 withdrawn on 1st May. The remaining credit balance is transferred to Trisha's Executors' Account, closing her capital account; it is not a payment through Bank because no settlement payment is stated.

Step 4: Conclusion Trisha's executors are entitled to $\boxed{\text{Rs } 4,60,000}$. Her capital account totals Rs 4,80,000 on each side after drawings and the transfer to her executors.

Quick Tip to Solve: Use four months for both salary and interim profit, but use the three-year average only for goodwill; credit the general reserve separately.

25(a). Lotus Ltd. invited applications for issuing 80,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as follows:

On application - Rs. 5 per share and

On allotment - Rs. 9 per share (included premium).

Applications were received for 1,40,000 shares and allotment was made to all applicants on pro-rata basis. Money overpaid on applications was adjusted towards sums due on allotment. Rajiv, who had applied for 1,400 shares, failed to pay the allotment money. His shares were forfeited. Later on, these forfeited shares were reissued at Rs. 9 per share as fully paid up.

Pass necessary journal entries for the above transactions in the books of Lotus Ltd. [6 marks]

Solution:

Concept:

- Pro-rata allotment distributes the available shares proportionately among all applicants. Excess application money is transferred to Share Allotment Account to reduce the amount subsequently payable.
- At forfeiture, debit Share Capital with the called-up face value and reverse unpaid securities premium. Credit Share Forfeiture only with capital money already received on the forfeited shares.
- Reissue discount is debited to Share Forfeiture. Once all forfeited shares have been reissued, the remaining forfeiture surplus is transferred to Capital Reserve.

Step 1: Determine the allotment and Rajiv's unpaid amount The ratio of shares applied for to shares allotted is $1,40,000 : 80,000 = 7 : 4$. Therefore, Rajiv receives $1,400 \times 4/7 = 800$ shares.

$$\begin{aligned} \text{Total application receipts} &= 1,40,000 \times 5 = \text{Rs } 7,00,000, \\ \text{Application capital} &= 80,000 \times 5 = \text{Rs } 4,00,000, \\ \text{Excess transferred to allotment} &= \text{Rs } 3,00,000, \\ \text{Total allotment due} &= 80,000 \times 9 = \text{Rs } 7,20,000. \end{aligned}$$

Rajiv paid $1,400 \times 5 = \text{Rs } 7,000$ on application. Of this, Rs 4,000 is application capital on 800 shares and Rs 3,000 is excess applied towards allotment. His gross allotment liability is $800 \times 9 = \text{Rs } 7,200$, leaving Rs 4,200 unpaid. Thus the company receives $7,20,000 - 3,00,000 - 4,200 = \text{Rs } 4,15,800$ in cash on allotment.

Step 2: Record application, allotment and its receipt Journal of Lotus Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,40,000 shares at Rs 5 each)		7,00,000	 7,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Being application money transferred to capital and excess adjusted towards allotment)		7,00,000	 4,00,000 3,00,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being allotment due on 80,000 shares at Rs 9 each, including Rs 4 premium)		7,20,000	 4,00,000 3,20,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after excess application adjustment, except Rs 4,200 due from Rajiv)		4,15,800	 4,15,800

Rajiv's unpaid amount remains in Share Allotment Account until forfeiture. A separate Calls-in-Arrears Account is optional here and has not been opened.

Step 3: Calculate and record forfeiture, reissue and capital reserve The Rs 3,000 excess application money is adjusted against the Rs 4,000 capital component of Rajiv's allotment. Hence his Rs 4,200 unpaid allotment consists of Rs 1,000 capital and Rs 3,200 premium. His entire Rs 7,000 receipt is capital money, credited to Share Forfeiture. Unpaid premium of $800 \times 4 = \text{Rs } 3,200$ must be reversed.

$$\text{Reissue cash} = 800 \times 9 = \text{Rs } 7,200,$$

$$\text{Reissue discount} = 800 \times (10 - 9) = \text{Rs } 800,$$

$$\text{Forfeiture surplus} = 7,000 - 800 = \text{Rs } 6,200.$$

Journal of Lotus Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Being Rajiv's 800 shares forfeited for non-payment of allotment and unpaid premium reversed)		8,000 3,200	 4,200 7,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being all 800 forfeited shares reissued at Rs 9 each as fully paid)		7,200 800	 8,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on all reissued shares transferred to capital reserve)		6,200	 6,200

Step 4: Conclusion Rajiv's 800 shares are forfeited and reissued. The unpaid allotment is Rs 4,200, Share Forfeiture is credited with Rs 7,000, and $\boxed{\text{Rs } 6,200}$ is transferred to Capital Reserve after reissue.

Quick Tip to Solve: Compute Rajiv's allotted shares first, then deduct his excess application money from gross allotment before preparing the forfeiture entry.

OR

25(b). Tulip Ltd. invited applications for issuing 2,40,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as under:

On application - Rs. 4 per share (including premium Rs. 2)

On allotment - Rs. 4 per share

On first and final call - Rs. 6 per share (including premium Rs. 2)

Applications for 3,00,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money received with applications was adjusted towards sums due on allotment. All moneys were duly received except from Rohini who had applied for 7,500 shares, and failed to pay allotment and first and final call.

Pass the necessary journal entries for the above transactions in the books of Tulip Ltd. Open Calls-in-arrears and Calls-in-advance account, wherever necessary.

[6 marks]

Solution:

Concept:

- Under pro-rata allotment, shares allotted equal shares applied for multiplied by the ratio of total shares issued to total shares applied for. Excess application money is transferred to Share Allotment Account.

- Premium is credited to Securities Premium Reserve when due. Unpaid allotment and call money are transferred to Calls-in-arrears Account; application excess used against allotment is not a first-call advance.

Step 1: Work out allotment and Rohini's unpaid amounts The allotment ratio is $2,40,000 : 3,00,000 = 4 : 5$. Application money received is $3,00,000 \times 4 =$ Rs $12,00,000$. On allotted shares, Rs 4,80,000 belongs to capital and Rs 4,80,000 to premium. Excess application money is therefore Rs 2,40,000. Rohini's position is:

$$\begin{aligned}\text{Shares allotted} &= 7,500 \times 4/5 = 6,000,\\ \text{Excess application} &= (7,500 - 6,000) \times 4 = \text{Rs } 6,000,\\ \text{Allotment arrears} &= 6,000 \times 4 - 6,000 = \text{Rs } 18,000,\\ \text{Call arrears} &= 6,000 \times 6 = \text{Rs } 36,000.\end{aligned}$$

Thus bank receives $9,60,000 - 2,40,000 - 18,000 =$ Rs $7,02,000$ on allotment and $14,40,000 - 36,000 =$ Rs $14,04,000$ on the call.

Step 2: Record application and allotment in the journal Journal of Tulip Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 3,00,000 shares at Rs 4 each)		12,00,000	 12,00,000

	Share Application A/c Dr.
	  To Share Capital A/c
	  To Securities Premium Reserve A/c
	  To Share Allotment A/c
	(Being application money transferred and excess adjusted towards allotment)
			12,00,000	
				4,80,000
				4,80,000
				2,40,000

	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due on 2,40,000 shares at Rs 4 each)		9,60,000	 9,60,000
	Bank A/c Dr. Calls-in-arrears A/c Dr. To Share Allotment A/c (Being allotment received after application adjustment, except Rohini's unpaid balance)		7,02,000 18,000	 7,20,000

Step 3: Record the first and final call Journal of Tulip Ltd. (continued; amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being call due at Rs 6 per share, including premium of Rs 2)		14,40,000	 9,60,000 4,80,000
	Bank A/c Dr. Calls-in-arrears A/c Dr. To Share First and Final Call A/c (Being call received except on Rohini's 6,000 shares)		14,04,000 36,000	 14,40,000

Step 4: Open and balance Calls-in-arrears Account Calls-in-arrears Account (amounts in Rs)

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Allotment A/c To Share First and Final Call A/c	18,000 36,000	By Balance c/d	54,000	
	Total	54,000	Total	54,000	
	To Balance b/d	54,000			

No Calls-in-advance Account is necessary: the application excess is fully adjusted against allotment.

Step 5: Conclusion Rohini receives 6,000 shares and owes Rs 54,000 in calls in arrears. Total bank receipts are Rs 33,06,000; capital and premium credited are Rs 24,00,000 and Rs 9,60,000 respectively.

Quick Tip to Solve: Deduct Rohini's Rs 6,000 excess application from her allotment demand before recording arrears; do not deduct it again from the call.

26. (a) On 1st April, 2021, LM Ltd. issued Rs. 45,00,000, 12% Debentures of Rs. 50 each at a discount of 10%. On 31st March, 2022 it decided to write off discount on issue of debentures according to the provisions of the Companies Act, 2013. It had a credit balance of Rs. 1,75,000 in its 'Securities Premium Reserve Account'.

Pass necessary journal entries for the above transaction in the books of the company.

(b) On 1st April, 2022, KR Ltd. acquired assets of Rs. 50,00,000 from SM Ltd. and took over liabilities of Rs. 10,00,000 for a purchase consideration of Rs. 40,00,000. Rs. 20,00,000 were paid to SM Ltd. by issuing 12% Debentures of Rs. 100 each at a premium of 25%, Rs. 15,00,000 were paid by issuing a crossed cheque in favour of SM Ltd. For the balance, KR Ltd. accepted a Bill of Exchange drawn upon them by SM Ltd. payable after three months.

Pass necessary journal entries for the above transactions in the books of the company. [6 marks]

Solution:

Concept:

- Debentures are credited at their nominal value. A discount on issue is debited separately; the available Securities Premium Reserve can be used to write it off, with the balance charged to Statement of Profit and Loss.
- Assets and liabilities taken over are recorded at agreed values, with the purchase consideration credited to the vendor. Debentures issued to the vendor discharge consideration at their issue price, including premium.

Step 1: (a) Calculate issue proceeds and discount written off LM Ltd. issues $45,00,000/50 = 90,000$ debentures. Discount is $45,00,000 \times 10\% =$ Rs $4,50,000$, so the cash received is Rs 40,50,000. The available Securities Premium Reserve of Rs 1,75,000 is used first. The remaining $4,50,000 - 1,75,000 =$ Rs $2,75,000$ is charged to Statement of Profit and Loss. The 12% rate is the interest rate and does not determine either the issue discount or the write-off.

Step 2: (a) Pass LM Ltd.'s journal entries Journal of LM Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2021	Bank A/c Dr.		40,50,000	
	Discount on Issue of Debentures A/c Dr.		4,50,000	
	To 12% Debentures A/c			45,00,000
	(Being 90,000 debentures of Rs 50 each issued at 10% discount)			
31 Mar. 2022	Securities Premium Reserve A/c Dr.		1,75,000	
	Statement of Profit and Loss Dr.		2,75,000	
	To Discount on Issue of Debentures A/c			4,50,000
	(Being discount on issue written off using the available premium reserve and charging the remainder to profit and loss)			

Step 3: (b) Calculate debentures issued and the bill accepted Net assets acquired are $50,00,000 - 10,00,000 =$ Rs $40,00,000$, equal to the purchase consideration. Thus neither goodwill nor capital reserve arises. Each debenture has an issue price of $100 + 25 =$ Rs 125. Therefore:

$$\begin{aligned} \text{Number of debentures} &= 20,00,000/125 = 16,000, \\ \text{Nominal value} &= 16,000 \times 100 = \text{Rs } 16,00,000, \\ \text{Securities premium} &= 16,000 \times 25 = \text{Rs } 4,00,000, \\ \text{Bill accepted} &= 40,00,000 - 20,00,000 - 15,00,000 \\ &= \text{Rs } 5,00,000. \end{aligned}$$

KR Ltd. is the acceptor of the three-month bill and hence records Bills Payable. The crossed cheque is a payment through Bank Account.

Step 4: (b) Pass KR Ltd.'s journal entries Journal of KR Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 Apr. 2022	Sundry Assets A/c Dr.		50,00,000	
	To Sundry Liabilities A/c			10,00,000
	To SM Ltd.			40,00,000
	(Being assets and liabilities taken over from SM Ltd. for an agreed consideration of Rs 40,00,000)			
1 Apr. 2022	SM Ltd. Dr.		40,00,000	
	To 12% Debentures A/c			16,00,000
	To Securities Premium Reserve A/c			4,00,000
	To Bank A/c			15,00,000
	To Bills Payable A/c			5,00,000
	(Being vendor settled through 16,000 debentures at 25% premium, a crossed cheque, and acceptance of a three-month bill)			

The credits in the settlement entry total Rs 40,00,000, exactly clearing SM Ltd.'s balance. The bill's later payment is not recorded at acceptance because it has not yet become a cash transaction.

Step 5: Conclusion (a) LM Ltd. receives Rs 40,50,000 and writes off discount of Rs 4,50,000: Rs 1,75,000 against Securities Premium Reserve and Rs 2,75,000 against Statement of Profit and Loss. (b) KR Ltd. issues 16,000 debentures, credits premium of Rs 4,00,000, pays Rs 15,00,000 by bank and accepts a bill for Rs 5,00,000.

Quick Tip to Solve: Divide the vendor amount discharged by Rs 125, not Rs 100, to find debentures issued; credit only their face value to Debentures Account.

Part B (20 marks)

OPTION I (Analysis of Financial Statements)

27. Which of the following transactions would result in inflow of cash and cash equivalents: [1 mark]

(A) Furniture costing Rs. 80,000 sold for Rs. 75,000

(B) Issue of bonus shares Rs. 5,00,000

(C) Payment to trade payables Rs. 15,000

(D) Provided depreciation on fixed assets Rs. 11,000

Correct Answer: (A) Furniture costing Rs. 80,000 sold for Rs. 75,000

Solution:

Concept:

- Cash inflow means an increase in cash or cash equivalents from an actual receipt. A non-cash adjustment does not create an inflow.
- Cash received on selling furniture is an investing inflow; the asset's cost and the profit or loss on

sale do not determine the cash received.

Step 1: Identify the cash receipt In option (A), furniture costing Rs 80,000 is sold for Rs 75,000. The sale brings in Rs 75,000. The difference between cost and sale proceeds does not turn the receipt into an outflow.

Step 2: Check the other transactions Option (B), issue of bonus shares, capitalises reserves without receiving cash. Option (C), payment of Rs 15,000 to trade payables, reduces cash and is an outflow. Option (D), depreciation of Rs 11,000, is a non-cash expense: recording it does not itself cause any receipt or payment.

Step 3: Conclusion Sale of furniture for Rs 75,000 results in a cash inflow of Rs 75,000. Hence, the correct option is (A).

Quick Tip to Solve: For an asset sale, identify the cash sale proceeds first; ignore the original cost when deciding whether cash flows in.

28(i). Which of the following is not a 'Profitability Ratio': [1 mark]

(A) Gross Profit Ratio

(B) Return on Investment

(C) Proprietary Ratio

(D) Operating Ratio

Correct Answer: (C) Proprietary Ratio

Solution:

Concept:

- Profitability ratios measure the earning capacity of a business by relating profit or operating cost to revenue or investment.
- The proprietary ratio is a solvency ratio: Proprietary Ratio $= \dfrac{\text{Shareholders' Funds}}{\text{Total Assets}}$.

Step 1: Classify the proprietary ratio The proprietary ratio shows the proportion of total assets financed by shareholders' funds. It measures the financial soundness and long-term solvency of the business, rather than profit earned.

Step 2: Check the other alternatives Gross profit ratio measures gross profit relative to revenue from operations. Return on investment measures profit relative to capital employed. Operating ratio relates operating cost to revenue from operations and indicates operating profitability. Thus options (A), (B) and (D) are all profitability ratios.

Step 3: Conclusion Proprietary Ratio is not a profitability ratio. Hence, the correct option is (C).

Quick Tip to Solve: Look for the ratio without profit, operating cost or sales: proprietary ratio describes how assets are financed.

OR

28(ii). Which of the following is a tool of 'Analysis of Financial Statements': [1 mark]

(A) Cash Flow Statement

(B) Statement of Profit and Loss

(C) Balance Sheet

(D) Both (a) and (b)

Correct Answer: (A) Cash Flow Statement

Solution:

Concept:

- Financial statement analysis uses techniques that interpret financial data and help assess performance and financial position.
- A cash flow statement analyses changes in cash and cash equivalents by classifying cash flows into operating, investing and financing activities.

Step 1: Identify the analytical tool A Cash Flow Statement explains the sources and uses of cash between two balance sheet dates. Cash flow analysis is a recognised tool of financial statement analysis, alongside ratio analysis and comparative and common-size statements.

Step 2: Eliminate the remaining choices The Statement of Profit and Loss and the Balance Sheet are the basic financial statements whose data are analysed. They are not, by themselves, analytical techniques in this classification. Thus (B) and (C) do not answer the question; (D) also fails because it includes the Statement of Profit and Loss.

Step 3: Conclusion Cash Flow Statement is the required tool. Hence, the correct option is (A).

Quick Tip to Solve: Distinguish the financial statements supplying data from the techniques used to analyse those data.

29. Which of the following transactions is not related to cash flows from investing activities: [1 mark]

(A) Purchase of marketable securities Rs. 25,000

(B) Sale of land Rs. 2,80,000

(C) Sale of investments Rs. 3,00,000

(D) Purchase of equipment Rs. 1,00,000

Correct Answer: (A) Purchase of marketable securities Rs. 25,000

Solution:

Concept:

- Investing activities include acquisition and disposal of long-term assets and investments other than cash equivalents.
- Movements between cash and cash equivalents are cash-management transfers and are excluded from operating, investing and financing cash flows.

Step 1: Examine the purchase of marketable securities In the classification used in this question, marketable securities are treated as cash equivalents. Purchasing them for Rs 25,000 merely converts cash into a cash equivalent, so this transaction is excluded from investing cash flows.

Step 2: Check the long-term asset transactions Sale of land for Rs 2,80,000 and sale of investments for Rs 3,00,000 are investing cash inflows. Purchase of equipment for Rs 1,00,000 is an investing cash outflow. Therefore, each of (B), (C) and (D) is related to investing activities.

Step 3: Conclusion Purchase of marketable securities of Rs 25,000 is not related to cash flows from investing activities. Hence, the correct option is (A).

Quick Tip to Solve: When securities represent cash equivalents, their purchase changes the form of cash holdings, not total cash equivalents.

30(i). The Debt-Equity Ratio of a company is 2:1. Which of the following transactions will increase the Debt-Equity Ratio: [1 mark]

(A) Issue of shares Rs. 1,00,000

(B) Issue of 9% debentures Rs. 4,00,000

(C) Issue of bonus shares Rs. 3,00,000

(D) Payment of creditors Rs. 50,000

Correct Answer: (B) Issue of 9% debentures Rs. 4,00,000

Solution:

Concept:

- Debt-equity ratio compares long-term debt D with shareholders' funds E: D/E. Here, $D = 2E$.
- An increase in long-term borrowings with unchanged shareholders' funds increases the debt-equity ratio.

Step 1: Test the issue of debentures Issuing 9% debentures adds Rs 4,00,000 to long-term debt. Equity remains unchanged, so the revised ratio is

$$\frac{2E + 4,00,000}{E} = 2 + \frac{4,00,000}{E} > 2.$$

Thus, debentures increase the ratio.

Step 2: Test the other transactions Issue of shares increases equity and reduces the ratio. Bonus shares transfer reserves to share capital, leaving total shareholders' funds unchanged; the ratio is unchanged. Payment of creditors reduces cash and current liabilities, without changing either long-term debt or shareholders' funds; it also leaves the ratio unchanged.

Step 3: Conclusion Issue of 9% debentures of Rs 4,00,000 increases the Debt-Equity Ratio. Hence, the correct option is (B).

Quick Tip to Solve: For debt-equity questions, track long-term debt and total shareholders' funds separately; bonus issues only rearrange equity.

OR

30(ii). During the year ended 31st March, 2022, Shradha Ltd. earned net profit of Rs. 15,00,000 before interest and tax. The company has a 10% long term debt of Rs. 50,00,000. The tax rate is 40%. The Interest Coverage Ratio of the company will be: [1 mark]

(A) 2 times

(B) 3 times

(C) 1.2 times

(D) 1.5 times

Correct Answer: (B) 3 times

Solution:

Concept:

- Interest Coverage Ratio $= \dfrac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}$. It measures how many times operating earnings cover interest.
- Annual interest equals the principal amount of long-term debt multiplied by its annual rate of interest.

Step 1: Calculate annual interest The debt is Rs 50,00,000 and the annual interest rate is 10%. Therefore,

$$\text{Interest} = 50,00,000 \times \frac{10}{100} = \text{Rs } 5,00,000.$$

Step 2: Divide pre-interest, pre-tax profit by interest The supplied profit of Rs 15,00,000 is already before interest and tax. Hence,

$$\text{Interest Coverage Ratio} = \frac{15,00,000}{5,00,000} = 3 \text{ times}.$$

The tax rate of 40% is irrelevant to this ratio. Deducting interest first would incorrectly give 2 times; applying tax to profit would also use the wrong numerator. The remaining options, 1.2 and 1.5 times, therefore do not follow the prescribed formula.

Step 3: Conclusion The Interest Coverage Ratio of Shradha Ltd. is 3 times. Hence, the correct option is (B).

Quick Tip to Solve: If profit is already before interest and tax, use it directly; neither subtract interest nor apply the tax rate.

31. Classify the following items under major heads and sub-heads (if any) in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013:

(i) Stores and Spares

(ii) Capital Advances

(iii) Outstanding Expenses [3 marks]

Solution:

Concept:

- Schedule III, Part I classifies assets and liabilities under their major heads, followed by the appropriate sub-heads.
- Classification follows the nature and purpose of an item: consumable stores form inventory, capital advances relate to fixed assets, and unpaid expenses are current obligations.

Step 1: Classify stores and spares Stores and spares held for consumption in the normal operating cycle are inventories. Accordingly, they appear on the assets side under Current Assets, with Inventories as the sub-head. They are supplies available for use, rather than expenses still payable.

Step 2: Classify capital advances Capital advances are amounts paid towards acquisition of fixed assets before the assets are supplied or the acquisition is completed. They are shown under Non-current Assets, with Long-term Loans and Advances as the sub-head. Their capital purpose distinguishes them from advances connected with routine current operations.

Step 3: Classify outstanding expenses and summarise Outstanding expenses have been incurred but remain unpaid at the balance sheet date. They represent a current obligation and appear under Current Liabilities, with Other Current Liabilities as the sub-head. The required classifications are:

Balance Sheet classification under Schedule III

Item	Major head	Sub-head
Stores and Spares	Current Assets	Inventories
Capital Advances	Non-current Assets	Long-term Loans and Advances
Outstanding Expenses	Current Liabilities	Other Current Liabilities

Step 4: Conclusion Stores and Spares are Inventories; Capital Advances are Long-term Loans and Advances; Outstanding Expenses are Other Current Liabilities, under their respective major heads shown above.

Quick Tip to Solve: Classify advances by their purpose: advances for fixed assets are non-current, while unpaid routine expenses are current liabilities.

32. 'It is a technique which involves regrouping of data by application of arithmetical relationships.' Identify the technique and state any two advantages of the technique identified above. [3 marks]

Solution:

Concept:

- Ratio analysis expresses an arithmetical relationship between two related accounting figures, such as profit and revenue, or current assets and current liabilities.
- Ratios make financial data easier to interpret by connecting related figures and providing measures

of profitability, liquidity, solvency and operating efficiency.

Step 1: Identify the technique The technique described is Ratio Analysis. It regroups financial statement data into meaningful relationships, usually expressed as a proportion, percentage or number of times. For example, relating current assets to current liabilities gives the current ratio, which helps interpret short-term financial strength.

Step 2: State the first advantage: assess financial performance Ratio analysis helps assess the financial performance and position of a business. Liquidity ratios indicate its ability to meet short-term obligations; solvency ratios indicate long-term financial strength; profitability ratios indicate earning capacity. These relationships help users identify areas of strength and weakness that separate absolute figures may not reveal.

Step 3: State the second advantage: facilitate comparisons Ratios facilitate comparisons over time and between comparable businesses. Comparing the same ratio for successive years shows whether performance is improving or deteriorating. Comparing ratios with those of similar firms or industry benchmarks helps evaluate relative efficiency even when business sizes differ. Such comparisons are meaningful when accounting policies and the bases of calculation are consistent.

Step 4: Conclusion The technique is Ratio Analysis. Its two advantages are assessment of financial performance and position, and facilitation of meaningful inter-period and inter-firm comparisons.

Quick Tip to Solve: The words "arithmetical relationships" point to ratio analysis; explain each advantage by stating what the ratio helps a user judge.

33(a). Calculate Gross Profit Ratio from the following information:

Average Inventory Rs. 1,60,000; Inventory Turnover Ratio 8 times, Average Trade Receivables Rs. 2,00,000; Trade Receivables Turnover Ratio 6 times and Cash Sales 25% of Total Sales. [4 marks]

Solution:

Concept:

- Inventory turnover ratio equals cost of revenue from operations divided by average inventory. Thus, multiplying average inventory by its turnover gives the cost of goods sold for the period.
- Trade receivables turnover ratio equals net credit revenue from operations divided by average trade receivables. Cash sales must therefore be added to the credit sales derived from this ratio.
- Gross profit is total revenue from operations less its cost. Gross profit ratio is gross profit divided by revenue from operations, multiplied by 100.

Step 1: Calculate cost of revenue from operations Using average inventory of Rs 1,60,000 and inventory turnover of 8 times,

$$\begin{aligned}\text{Cost of revenue from operations} &= \text{Average inventory} \times \text{Inventory turnover} \\ &= 1,60,000 \times 8 = \text{Rs } 12,80,000.\end{aligned}$$

This ratio uses cost, so the amount obtained is not the selling value of the goods.

Step 2: Calculate credit sales from receivables turnover Receivables arise from credit sales. Accord-

ingly,

$$\text{Credit sales} = \text{Average trade receivables} \times \text{Receivables turnover}$$
$$= 2,00,000 \times 6 = \text{Rs } 12,00,000.$$

No sales returns are given, so the stated sales are used as revenue from operations.

Step 3: Convert credit sales to total sales Cash sales are 25% of total sales. Hence credit sales constitute the remaining $100\% - 25\% = 75\%$ of total sales. Therefore,

$$\text{Total sales} = 12,00,000 \times \frac{100}{75} = \text{Rs } 16,00,000,$$
$$\text{Cash sales} = 16,00,000 \times \frac{25}{100} = \text{Rs } 4,00,000.$$

The check is Rs 12,00,000 credit sales plus Rs 4,00,000 cash sales, giving Rs 16,00,000 total sales.

Step 4: Calculate gross profit and its percentage of sales Deduct cost from total sales, and use total sales as the denominator:

$$\text{Gross profit} = 16,00,000 - 12,80,000 = \text{Rs } 3,20,000,$$
$$\text{Gross profit ratio} = \frac{3,20,000}{16,00,000} \times 100.$$

Gross profit must be compared with the full selling value, including both cash and credit sales.

Step 5: Conclusion The Gross Profit Ratio is $\boxed{20\%}$, based on gross profit of Rs 3,20,000 and total sales of Rs 16,00,000.

Quick Tip to Solve: When cash sales are 25% of total sales, divide credit sales by 0.75; do not add 25% of credit sales to obtain total sales.

OR

33(b). From the following information, calculate Working Capital Turnover Ratio:

Capital Employed Rs. 1,00,000

Non-Current Assets Rs. 80,000

Cost of Revenue from Operations Rs. 3,20,000

Gross Profit Ratio 20% [4 marks]

Solution:

Concept:

- Working capital is current assets minus current liabilities. Capital employed equals non-current assets plus working capital, so working capital can be obtained by deducting non-current assets from capital employed.
- Gross profit ratio expresses gross profit as a percentage of revenue from operations. Cost of revenue from operations is the balance of revenue after deducting gross profit.
- Working capital turnover ratio equals revenue from operations divided by working capital. It

measures the revenue generated per rupee of working capital and is expressed in times.

Step 1: Derive working capital from capital employed Capital employed represents the funds invested in non-current assets and net current assets. Therefore,

$$\begin{aligned}\text{Working capital} &= \text{Capital employed} - \text{Non-current assets}\\ &= 1,00,000 - 80,000 = \text{Rs } 20,000.\end{aligned}$$

The Rs 1,00,000 figure cannot itself be used as working capital because it includes the investment in non-current assets.

Step 2: Determine cost as a percentage of revenue Gross profit ratio is 20%, so gross profit is Rs 20 out of every Rs 100 of revenue from operations. The remaining Rs 80 represents cost. Thus,

$$\text{Cost as a percentage of revenue} = 100\% - 20\% = 80\%.$$

The given cost of Rs 3,20,000 therefore represents 80% of revenue, not the full revenue figure.

Step 3: Calculate revenue from operations Let revenue from operations be R. Using cost equal to 80% of revenue,

$$\begin{aligned}0.80R &= 3,20,000,\\ R &= 3,20,000 \times \frac{100}{80} = \text{Rs } 4,00,000.\end{aligned}$$

As a check, gross profit is Rs 4,00,000 minus Rs 3,20,000, or Rs 80,000. This is exactly 20% of Rs 4,00,000, consistent with the stated gross profit ratio.

Step 4: Substitute in the working capital turnover formula Use revenue from operations as the numerator and the derived working capital as the denominator:

$$\text{Working capital turnover ratio} = \frac{\text{Revenue from operations}}{\text{Working capital}} = \frac{4,00,000}{20,000}.$$

Both amounts relate to the same business, and their rupee units cancel. Hence this turnover ratio is stated in times rather than as a percentage.

Step 5: Conclusion The Working Capital Turnover Ratio is $\boxed{20 \text{ times}}$. Each rupee of working capital supports Rs 20 of revenue from operations.

Quick Tip to Solve: With a 20% gross profit ratio, recover revenue by dividing cost by 0.80; then divide that revenue by capital employed less non-current assets.

34. Read the following hypothetical text and answer the given question on this basis:

Azad, inspired by 'Make-in-India' mission, initiated his start-up in the form of a company 'Azad Ltd.' along with six other promoters in 2016. The company has been earning good revenue consistently. The financial position of Azad Ltd. as at 31st March, 2022 was as follows:

Balance Sheet of Azad Ltd. as at 31st March, 2022

Particulars	Note No.	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I - Equity and Liabilities:			
1. Shareholders' Funds			
(a) Share Capital		19,00,000	17,00,000
(b) Reserves and Surplus	1	6,00,000	3,00,000
2. Non-Current Liabilities			
Long-term Borrowings	2	5,00,000	4,00,000
3. Current Liabilities			
(a) Short-term Borrowings	3	1,70,000	1,75,000
(b) Short-term Provisions	4	2,00,000	1,65,000
Total		33,70,000	27,40,000
II - Assets:			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	5	24,00,000	19,00,000
(ii) Intangible Assets	6	4,00,000	3,00,000
(b) Non-current Investments		1,00,000	2,00,000
2. Current Assets			
(a) Current Investments		1,40,000	1,70,000
(b) Inventories		2,60,000	1,30,000
(c) Cash and Cash Equivalents		70,000	40,000
Total		33,70,000	27,40,000

Notes to Accounts:

Note No.	Particulars	31.3.2022 (Rs.)	31.3.2021 (Rs.)
(1)	Reserves and Surplus (Surplus i.e. Balance in Statement of Profit and Loss)	6,00,000	3,00,000
(2)	Long-term Borrowings: 12% Debentures	5,00,000	4,00,000
(3)	Short-term Borrowings: Bank Overdraft	1,70,000	1,75,000
(4)	Short-term Provisions: Provision for Tax	2,00,000	1,65,000
(5)	Tangible Assets: Machinery	26,00,000	20,00,000
	Less Accumulated Depreciation	(2,00,000)	(1,00,000)
		24,00,000	19,00,000
(6)	Intangible Assets: Goodwill	4,00,000	3,00,000

Additional Information:

(i) Rs. 1,00,000, 12% Debentures were issued on 1st April, 2021.

(ii) A piece of machinery costing Rs. 80,000 on which accumulated depreciation was Rs. 40,000, was sold at a gain of Rs. 10,000.

Calculate cash flows from 'Investing Activities' and 'Financing Activities'. [6 marks]

Solution:

Concept:

- Investing activities include cash paid to acquire fixed assets and cash received on their disposal, together with purchases and sales of investments other than cash equivalents.
- Financing activities change share capital and borrowings. For a non-financial company, interest paid is a financing cash outflow.
- A disposal is recorded at sale proceeds, whereas the machinery cost movement uses the original cost of the asset sold. These amounts must not be confused.

Step 1: Working Notes: determine machinery purchases and sale proceeds The machinery note supplies gross cost separately from accumulated depreciation. Accordingly, purchases are obtained from the gross-cost movement:

$$\begin{aligned}\text{Purchases} &= \text{Closing cost} - \text{Opening cost} + \text{Cost sold}\\ &= 26,00,000 - 20,00,000 + 80,000\\ &= \text{Rs } 6,80,000.\end{aligned}$$

The machinery sold had a book value of Rs $80,000 - 40,000 = 40,000$. Adding the gain gives the cash received:

$$\text{Sale proceeds} = 40,000 + 10,000 = \text{Rs } 50,000.$$

The gain itself is not an additional investing receipt. The full sale proceeds already include it.

Step 2: Working Notes: calculate the other asset movements Goodwill increased from Rs 3,00,000 to Rs 4,00,000, giving a purchase outflow of Rs 1,00,000. Non-current investments decreased from Rs 2,00,000 to Rs 1,00,000, giving sale proceeds of Rs 1,00,000, since no gain or loss on their disposal is specified. These movements are taken as cash transactions because no non-cash acquisition or disposal is stated. Current investments are treated as cash equivalents under the usual treatment of short-term marketable investments in this question, and their Rs 30,000 decrease is therefore excluded from investing activities.

Step 3: Present cash flows from investing activities **Azad Ltd.: Cash Flow Statement (Extract)**
For the year ended 31st March, 2022

Particulars	Amount (Rs)
A. Cash flows from investing activities	
Purchase of machinery	(6,80,000)
Purchase of goodwill	(1,00,000)
Proceeds from sale of machinery	50,000
Proceeds from sale of non-current investments	1,00,000
Net cash used in investing activities	**(6,30,000)**

Step 4: Working Notes: calculate financing movements and interest Share capital increased by Rs $19,00,000 - 17,00,000 = 2,00,000$, treated as cash received from issue of shares. The additional Rs 1,00,000 debentures were issued on 1st April, 2021, so both the opening debentures of Rs 4,00,000

and the new issue carry interest for the entire year:

$$\text{Interest paid} = 5,00,000 \times \frac{12}{100} = \text{Rs } 60,000.$$

No interest outstanding is given, so the year's interest is taken as paid. Bank overdraft decreased by Rs $1,75,000 - 1,70,000 = 5,000$, representing repayment of short-term borrowing. This is a financing outflow under the treatment of overdraft as borrowing used here.

Step 5: Present cash flows from financing activities **Azad Ltd.: Cash Flow Statement (Extract, continued)**
For the year ended 31st March, 2022

Particulars	Amount (Rs)
B. Cash flows from financing activities	
Proceeds from issue of shares	2,00,000
Proceeds from issue of 12% debentures	1,00,000
Repayment of bank overdraft	(5,000)
Interest paid on debentures	(60,000)
Net cash from financing activities	**2,35,000**

Inventories, tax provisions and the change in profit and loss balance are relevant to operating activities, which the question does not ask us to calculate.

Step 6: Conclusion Cash used in investing activities is Rs 6,30,000 and cash generated from financing activities is Rs 2,35,000.

Quick Tip to Solve: Use machinery at gross cost to find purchases, and book value plus gain to find sale proceeds; charge full-year interest on the debentures issued on 1st April.

OPTION II (Computerised Accounting)

27(i). Absence of data items is represented by one of the special values from the following i.e.:

[1 mark]

(A) Single value
(B) Stored value
(C) Multi value
(D) Null value

Correct Answer: (D) Null value

Solution:

Concept:

- A null value is a special database marker indicating that a data item is absent, unknown or not applicable.
- Null must be distinguished from zero and from an entered empty string: those can be actual recorded values.

Step 1: Identify the missing-data marker The question asks how the absence of a data item is represented. A field for which no value is supplied is represented by null; it does not imply that the

numerical value of the field is zero.

Step 2: Eliminate the other choices A single value describes one value, a stored value describes information already held in a system, and a multi value describes several values. None of these is the special marker used for missing data.

Step 3: Conclusion Hence, the correct option is (D): Null value.

Quick Tip to Solve: Associate null with an absent value; do not replace missing numerical data by zero.

OR

27(ii). The process of comparing input data with some unknown data is called: [1 mark]

(A) Storage data

(B) Information data

(C) Data entry

(D) Data validation

Correct Answer: (D) Data validation

Solution:

Concept:

- Data validation checks whether entered data satisfy prescribed rules, permitted ranges or other acceptance conditions.
- Data entry supplies data to a system; storage retains the supplied data. Checking admissibility is a separate process.

Step 1: Identify the checking operation The comparison or checking operation described points to data validation. In a validation process, input is tested against the relevant criteria before being accepted, for example whether a date falls within an allowed accounting period.

Step 2: Distinguish checking from entry and storage Data entry is the act of entering values, rather than testing them. Storage data and information data do not name the process of checking the input. Data validation is therefore the matching process among the four choices. Validation checks against defined conditions; it does not compare meaningfully against an unspecified unknown value.

Step 3: Conclusion Hence, the correct option is (D): Data validation.

Quick Tip to Solve: For a process that checks input against acceptance conditions, select validation rather than data entry.

28. Which of the following chart element details the data values and categories below the chart: [1 mark]

(A) Data labels

(B) Data tables

(C) Data point

(D) Data markers

Correct Answer: (B) Data tables

Solution:

Concept:

- A chart data table displays the source data values and category information in a table below the chart.
- Data labels attach information to plotted values, while data markers represent those values graphically.

Step 1: Locate the requested chart element The decisive clue is that values and categories are detailed below the chart. A data table supplies the underlying numerical entries in a tabular display beneath the plotted area, allowing the reader to see exact amounts.

Step 2: Check the remaining alternatives Data labels appear beside or on individual plotted values. A data point is one plotted value, and a data marker is its graphical symbol, such as a bar or dot. Neither provides the table of values and categories below the chart.

Step 3: Conclusion Hence, the correct option is (B): Data tables.

Quick Tip to Solve: Use the location clue: a table below the chart is a data table; a value beside a bar is a data label.

29(i). From the following a legend can be repositioned on a chart: [1 mark]

(A) On the corner only

(B) Anywhere

(C) On right-side only

(D) On the bottom of x-axis

Correct Answer: (B) Anywhere

Solution:

Concept:

- A chart legend is a key identifying the colours, patterns or symbols used for its data series.
- The legend is a movable chart element; its position can be changed to suit the chart layout.

Step 1: Identify the freedom to position the legend A legend may be selected and repositioned within the chart area. Its position is chosen to keep series identification readable while avoiding obstruction of the plotted information; it is not restricted to one fixed edge.

Step 2: Reject the restrictive alternatives The corner-only and right-side-only choices incorrectly

impose a fixed location. The bottom of the x-axis is also only one possible placement, not the general rule. The unrestricted option best describes the ability to reposition a legend on the chart.

Step 3: Conclusion Hence, the correct option is (B): Anywhere.

Quick Tip to Solve: Remember that the legend is a movable key; reject choices that restrict it to one fixed side.

OR

29(ii). Which of the following are the five pillars of computerised accounting system: [1 mark]

(A) Data, Report, Ledger, Hardware, Software

(B) Data, People, Procedure, Hardware, Software

(C) People, Procedure, Ledger, Data, Chart of Accounts

(D) Data, Coding, Procedure, Rules, Output

Correct Answer: (B) Data, People, Procedure, Hardware, Software

Solution:

Concept:

- The five pillars of a computerised accounting system are hardware, software, people, procedures and data.
- Hardware provides equipment, software supplies instructions, people operate the system, procedures govern its use and data are its inputs.

Step 1: Match the complete set of pillars The set Data, People, Procedure, Hardware, Software includes each essential component exactly once. Together these components enable accounting transactions to be captured, processed, stored and reported.

Step 2: Test the other sets Option (A) replaces people and procedure with report and ledger. Option (C) omits hardware and software and includes ledger and chart of accounts. Option (D) also omits people, hardware and software. Reports, ledgers and coding are useful accounting features, but they do not replace the five basic pillars.

Step 3: Conclusion Hence, the correct option is (B): Data, People, Procedure, Hardware, Software.

Quick Tip to Solve: Check that a proposed list contains equipment, programs, users, operating procedures and transaction data.

30. From the following, identify the Accounting information sub-system for obtaining information about cost and expenses: [1 mark]

(A) Costing sub-system

(B) Cash and bank sub-system

(C) Expense accounting sub-system

(D) Final accounts sub-system

Correct Answer: (A) Costing sub-system

Solution:

Concept:

- An accounting information system is divided into sub-systems according to the information required and the transactions processed.
- The costing sub-system obtains information about costs and expenses by drawing on information about materials, labour and other expenses.

Step 1: Identify the required function The requirement is to obtain information about cost and expenses. The costing sub-system combines relevant information from the accounting records to determine and analyse costs. For example, information about materials used, labour and other expenses is brought together to establish the cost of a product or activity. This matches the costing sub-system in option (A).

Step 2: Distinguish the other sub-systems Expense accounting in (C) records and classifies expenses; this should not be confused with the costing function of obtaining combined cost information. Cash and bank in (B) deals with receipts, payments and balances of cash and bank accounts. Final accounts in (D) prepares the financial statements. Therefore, the presence of the word expenses does not make expense accounting the correct choice for the function asked here.

Step 3: Conclusion The required sub-system is the costing sub-system. Hence, the correct option is (A).

Quick Tip to Solve: Distinguish recording expenses from obtaining combined cost information: the latter brings together material, labour and other expenses through the costing sub-system.

31. Explain the following two features of Computerised Accounting System:

(i) Simple and integrated

(ii) Accuracy and speed [3 marks]

Solution:

Concept:

- A Computerised Accounting System (CAS) processes financial transactions using accounting software and produces useful accounting information and reports.
- Integration means that connected accounting functions use common data; speed and accuracy refer to the efficient processing of that data according to specified rules.

Step 1: Explain simple and integrated A CAS simplifies the recording and processing of transactions through organised input screens, account codes and automated procedures. It integrates related functions, such as purchases, sales, inventory and accounting, so that information entered for a transaction can be used wherever it is relevant. For example, a credit sale can update the customer's account, sales records and related reports from the same entry. This reduces repeated entry of the same information and helps keep the records consistent. Reports can therefore be generated from the connected records without separately preparing each record manually.

Step 2: Explain accuracy and speed A CAS performs calculations, posting, classification and report generation rapidly, even for a large number of transactions. The computer follows the programmed instructions consistently and reduces manual arithmetic and posting errors. For example, totals and account balances can be recalculated immediately when transactions are entered. Accuracy nevertheless depends on correct input data and appropriate software instructions: a wrong amount or wrong account entered by a user can still produce an incorrect result. Thus, speed is combined with accurate processing, while input checks remain necessary.

Step 3: Conclusion A CAS is simple and integrated because it connects accounting functions through shared data, and it provides accuracy and speed through consistent, rapid automated processing of correctly entered transactions.

Quick Tip to Solve: For integration, use one transaction updating several records; for accuracy and speed, explain rapid processing while stating that correct input is essential.

32. Differentiate between 'Generic software' and 'Specific software' on any three bases. [3 marks]

Solution:

Concept:

- Generic software is a ready-made package developed for common requirements of a large number of users or organisations.
- Specific software is developed or tailored to meet the particular requirements of an organisation or a defined application.

Step 1: Compare purpose and suitability **Basis 1: Nature of requirements.** Generic software serves standard or common requirements and is used by many organisations with similar needs. Specific software serves the particular requirements of the organisation for which it is developed. For example, a general accounting package provides standard accounting facilities, whereas software written for a particular organisation can follow its own transaction-processing and reporting requirements.

Step 2: Compare development cost **Basis 2: Cost.** Generic software generally has a lower acquisition cost because the cost of development is spread over many users. Specific software generally costs more because requirement analysis, development, testing and implementation are undertaken for a particular customer or application. The comparison concerns the usual cost pattern; the price of any individual package also depends on its facilities and licensing terms.

Step 3: Compare availability and implementation time **Basis 3: Time required.** Generic software is already available and can generally be installed and put into use relatively quickly after configuration

and user training. Specific software normally takes longer because the user's requirements must be studied and the software designed, developed and tested before it can be fully implemented. Consequently, the organisation must allow time for development as well as installation and training.

Step 4: Conclusion Generic software meets common needs, generally costs less and is available quickly. Specific software meets particular needs, generally costs more and requires a longer development and implementation period.

Quick Tip to Solve: Use the same three comparison bases on both sides: requirements served, development cost and time needed to become operational.

33. Define 'Charts' and 'Graphs'. Give their any two uses for business. [4 marks]

Solution:

Concept:

- Visual presentation converts numerical data into forms that make comparisons, patterns and trends easier to understand.
- A suitable chart or graph should represent the selected data clearly, using an appropriate title, labels, scale and legend where required.

Step 1: Define charts and graphs **Charts** are visual or pictorial representations of numerical data, using forms such as columns, bars, lines or sectors to summarise information. A pie chart, for example, can show the share of each expense head in total expenditure.

Graphs are graphical representations of numerical data or relationships between quantities, commonly using points, lines or curves plotted against axes. A line graph, for example, can plot sales against time to show how sales change from month to month. In spreadsheet usage, graphs are commonly included among the available chart types; the terms both refer to visual ways of presenting data.

Step 2: Explain their use for business comparisons **Use 1: Comparing business performance.** Charts and graphs make it easier to compare figures across products, departments, branches or periods. For example, a column chart showing the sales of different branches allows management to identify the higher and lower performers quickly. A comparison of actual expenses with budgeted expenses can also draw attention to areas needing cost control. Thus, large tables of figures can be communicated in a form that is quicker to interpret.

Step 3: Explain their use for identifying trends **Use 2: Identifying trends for planning.** A graph of monthly sales, costs or profit helps a business recognise growth, decline and seasonal patterns over time. For example, repeated peaks in sales during particular months can help management plan inventory, production and staffing. The graph assists forecasting and decision-making by making the past pattern visible, although a past trend does not guarantee the same future result.

Step 4: Conclusion Charts and graphs present data visually. Businesses use them to compare performance and to identify trends that support planning and decisions.

Quick Tip to Solve: Give one concrete example for each use: branch sales for comparison and monthly sales for trends; explain the business decision each display supports.

OR

33. Which error appears when a negative date or time is used? How can you correct it? [4 marks]

Solution:

Concept:

- A spreadsheet stores dates as serial numbers and times as fractions of a day. A negative result cannot be displayed as a normal date or time in Excel's usual 1900 date system.
- The display ##### indicates that the cell's value cannot be shown in its current format. It can result from a negative date or time, or from insufficient column width.

Step 1: Identify the error and its cause The cell displays a series of hash signs, #####, commonly called the hash error. When a formula produces a negative date or time and the cell is formatted as Date or Time, Excel cannot display that result in the usual date system. For example, subtracting a later date from an earlier date produces a negative serial difference. The hash display does not mean that a name in the formula is unrecognised or that division by zero has occurred.

Step 2: Correct the underlying date or time calculation Check the input dates or times and the order of subtraction. If an elapsed duration is required, subtract the earlier value from the later value. For example, when A1 contains the starting date and B1 contains the later ending date, use `=B1-A1` and format the result as Number to show the number of elapsed days. Correct an accidentally entered date or time rather than merely hiding its sign. For an overnight time interval, include the dates with the times so that the ending date-time follows the starting date-time.

Step 3: Apply a suitable display format If the negative value is intentional and represents a signed numerical difference rather than a calendar date, change the cell's format from Date or Time to General or Number using Format Cells. The numerical value can then be displayed; a time difference expressed this way is a fraction of a day. If the underlying value is valid and only the column is too narrow, widen the column or use AutoFit. Widening alone cannot correct a negative date or time in an unsupported date-time format.

Step 4: Conclusion A negative date or time produces the ##### hash display. Correct the date/time entries or subtraction; when a signed numerical difference is intended, use General or Number format.

Quick Tip to Solve: For #####, check the formula's sign as well as column width: AutoFit cannot repair an unsupported negative date or time.

34. Name the financial function which returns accrued interest on a bond with 5% coupon rate and where issue and settlement date of investment is also given. Also explain its syntax. [6 marks]

Solution:

Concept:

- Accrued interest is the interest earned on a security up to a specified settlement date but not yet paid. Excel's financial function `ACCRINT` returns accrued interest for a security that pays periodic interest.
- The calculation uses the annual coupon rate, par value, relevant dates, payment frequency and

day-count basis. The given 5% annual coupon rate is entered as 0.05 or 5%, not as 5.

Step 1: Identify the function and state its syntax The required financial function is `ACCRINT`. Its syntax, continued on the next line for readability, is:

```
=ACCRINT(issue, first_interest, settlement, rate,
         par, frequency, [basis], [calc_method])
```

The arguments must be entered in this order. Square brackets indicate optional arguments; the brackets themselves are not typed into the formula.

Step 2: Explain the three date arguments `issue` is the date on which the security was issued. `first_interest` is the date of the security's first interest payment. `settlement` is the settlement date of the security, that is, the date after issue when it is traded to the buyer. These arguments should contain valid spreadsheet dates, preferably supplied through date-valued cell references or the `DATE` function. The issue date must precede the settlement date for a valid calculation.

Step 3: Explain rate, par value and payment frequency `rate` is the annual coupon interest rate; here it is 0.05. `par` is the security's face or par value on which interest is calculated; Excel uses $1{,}000$ if par is omitted. `frequency` is the number of coupon payments each year: 1 for annual, 2 for half-yearly and 4 for quarterly payments. It is the payment frequency, not the number of years for which the investment is held.

Step 4: Explain the optional arguments `basis` specifies the day-count convention: 0, or omitted, means US (NASD) 30/360; 1 means actual/actual; 2 means actual/360; 3 means actual/365; and 4 means European 30/360. `calc_method` is a logical argument used when settlement is later than the first interest date. `TRUE`, or omitted, calculates total accrued interest from issue to settlement; `FALSE` calculates accrued interest from the first interest date to settlement.

Step 5: Apply the stated coupon rate For example, if A1, A2 and A3 contain the issue, first-interest and settlement dates respectively, while A4 and A5 contain the par value and payment frequency, a formula using the default day-count basis is:

```
=ACCRINT(A1,A2,A3,5%,A4,A5,0,TRUE)
```

This illustrates the argument positions without inventing dates or a bond value. The question asks for the function and its syntax; a numerical interest amount additionally requires the actual dates, par value and payment frequency.

Step 6: Conclusion Use `ACCRINT` to calculate the accrued interest on the periodic-interest bond, entering 5% as its annual `rate` argument and supplying the required dates and security details.

Quick Tip to Solve: Remember the date order in `ACCRINT`: issue, first interest, settlement; enter the coupon rate as 5%, not 5.